2008 Annual Report

Office of the
Auditor General
of Ontario

Office of the Auditor General of Ontario

To the Honourable Speaker
of the Legislative Assembly

In my capacity as the Auditor General, I am pleased to submit to you the *2008 Annual Report* of the Office of the Auditor General of Ontario to lay before the Assembly in accordance with the provisions of section 12 of the *Auditor General Act*.

Jim McCarter, CA
Auditor General

Fall 2008

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Table of Contents

Chapter 1 **Overview, Value-for-money Audit Summaries, and Special Reports** 5

Chapter 2 **Public Accounts of the Province** 24

Chapter 3 **Reports on Value-for-money (VFM) Audits** 49

Section 3.01 Addiction Programs 50
Section 3.02 Adult Institutional Services 72
Section 3.03 Brampton Civic Hospital Public-private Partnership Project 102
Section 3.04 Child and Youth Mental Health Agencies 125
Section 3.05 Commercial Vehicle Safety and Enforcement Program 147
Section 3.06 Community Mental Health 172
Section 3.07 Court Services 202
Section 3.08 Employment and Training Division 232
Section 3.09 Food Safety 263
Section 3.10 Gasoline, Diesel-fuel, and Tobacco Tax 286
Section 3.11 Hospital Board Governance 303
Section 3.12 Ontario Clean Water Agency 319
Section 3.13 School Renewal and Maintenance 345
Section 3.14 Special Education 364

Chapter 4 **Follow-up on 2006 Value-for-money Audits** 387

Section 4.01 Child Welfare Services Program 387
Section 4.02 Children's Aid Societies 387
Section 4.03 Community Colleges—Acquisition of Goods and Services 388
Section 4.04 Forest Fire Management 391
Section 4.05 Hospitals—Administration of Medical Equipment 397
Section 4.06 Hospitals—Management and Use of Diagnostic Imaging Equipment 404
Section 4.07 Hydro One Inc.—Acquisition of Goods and Services 414
Section 4.08 Ontario Health Insurance Plan 424

Section 4.09 Ontario Power Generation—Acquisition of Goods and Services 431
Section 4.10 Ontario Realty Corporation—Real Estate and Accommodation Services 438
Section 4.11 School Boards—Acquisition of Goods and Services 444

Chapter 5 The Auditor General's Review of Government Advertising 448

Chapter 6 The Standing Committee on Public Accounts 464

Chapter 7 The Office of the Auditor General of Ontario 467

Exhibit 1 Agencies of the Crown 489

Exhibit 2 Crown-controlled Corporations 491

Exhibit 3 Treasury Board Orders 493

Chapter 1

Overview, Value-for-money Audit Summaries, and Special Reports

Overview

ANOTHER BUSY YEAR

In this, my sixth Annual Report to the Legislative Assembly, I first want to provide an overview of the work done by my Office over the past year, which has been an extremely busy one.

As an audit organization, we are somewhat atypical in that the focus of our work has less to do with financial audits than with what we call value-for-money auditing. The objective of this work is to assess whether public services are being reliably delivered in a cost-effective manner consistent with best practices established both within Ontario and in other jurisdictions. Our work is conducted in government ministries, Crown agencies, and, in the last few years, in broader-public-sector organizations such as school boards, hospitals, colleges, universities, community social service providers, and other organizations that are funded by the government.

Last year, I reported that over the past decade our Office had completed an average of 12 value-for-money audits each year. This year, my Office completed 14 value-for-money audits, the results of which are reported on in Chapter 3. In addition, we conducted audit work that resulted in three special reports being issued during the past year—two of which were specifically requested by a Minister. The third was an audit on hospital-acquired infections that I reported on in fall 2008 rather than waiting to include it in our Annual Report—as the normal practice would be under the requirements of the *Auditor General Act*. I did so because the Standing Committee on Public Accounts requested that we consider tabling the results of this audit as soon as it was complete.

Our auditing of the province's consolidated financial statements and the financial statements of numerous Crown agencies is an essential element in "closing the accountability loop" to ensure that the Legislature and Ontarians receive credible financial information. The results of our audit of the province's financial statements, along with a number of observations related to our financial audit work, are reported on in Chapter 2.

Each year, our work also includes following up on actions taken to implement our recommendations from value-for-money audits completed two years ago. The results of this work are reported on in Chapter 4.

I am pleased to report that we fulfilled our responsibilities under the *Government Advertising Act, 2004* as discussed in Chapter 5. Under this Act, we are required to review proposed government advertising intended for television, radio, newspapers, magazines, and billboards, as well as those to be delivered to households by bulk mail delivery. The purpose of our review is to ensure that such advertisements do not have as a primary objective promoting the partisan political interests of the governing party.

I would also like to acknowledge the work done during the year by the Legislature's Standing Committee on Public Accounts. This all-party committee held hearings on a number of value-for-money audits reported on in my *2007 Annual Report*. Without a doubt, the work of the Committee enhances the accountability of ministries, agencies, and broader-public-sector organizations to the Legislature and the citizens of the province.

THE IMPORTANCE OF OVERSIGHT

In reviewing the results of this year's 14 value-for-money and three special reports, I was reminded of comments I made three years ago when summing up the results of our 2005 value-for-money audit work. Specifically, I noted how important it was to have rigorous management oversight to ensure that services to the public are delivered economically, efficiently, and effectively. I also noted at that time that this oversight must be in place not only for services delivered directly by government staff but also for services that are delegated to other organizations or municipalities to deliver on the government's behalf.

These and other observations that I make every year concerning deficiencies and weaknesses in the delivery of publicly funded services may seem disconnected from the everyday lives of Ontarians, but in fact, nothing could be further from the truth. This summer's tragic propane explosion in Toronto was a powerful reminder of the importance of proper oversight, and the risks this oversight is meant to safeguard against.

My first Annual Report to the Legislative Assembly in 2003 contained several observations relating to the Technical Standards and Safety Authority (TSSA), the not-for-profit, industry-funded organization with the delegated responsibility for safety and inspections of a variety of industries, one of which is propane facilities. Although we did not have the authority to directly audit the TSSA, it was apparent to us then, based on what work we could do, that the Ministry of Consumer and Commercial Relations (now the Ministry of Small Business and Consumer Services) did not exercise adequate oversight over delegated authorities, of which the TSSA was one of the largest. More specifically, we concluded that "the Ministry did not have adequate assurance that public safety and consumers were properly protected by industry oversight organizations" and that its "monitoring of inspections, investigations, and other enforcement activities undertaken by delegated authorities in response to violations they identified was inadequate."

We do not know the full extent to which these concerns of ours from five years ago were, or were not, addressed. However, this real-life example shows the risks involved and makes abundantly clear the importance of adequate oversight.

Again this year, on a number of audits, we concluded there was insufficient oversight. Often, this was because the ministry with oversight responsibility or that was providing the funding had insufficient information to assess whether the level of service being provided was adequate. In a number of instances, the delivery of services or responsibilities had been delegated to others.

I acknowledge that finding the right balance between appropriate high-level oversight on the one hand, and micro-managing on the other, is often not easy, particularly when government services or programs are delivered by the broader public sector or other organizations. Organizations must be allowed the autonomy to run their day-to-day operations without constant meddling from ministry managers; but ministry management must ensure that an effective accountability relationship is in place and that sufficient, useful, and credible information is being received and assessed to ensure that the public is getting the appropriate level of service in a cost-effective and timely way. On a number of audits this year where service delivery had been delegated to others, we found that the right balance has not yet been struck, most notably in the following areas:

Addiction Programs

The Ministry of Health and Long-Term Care has recently delegated the responsibility for overseeing community-based addiction treatment agencies to the 14 Local Health Integration Networks (LHINs). However, the LHINs have neither the information nor the resources yet to know whether these agencies are ensuring that people with addictions are being identified and are receiving the treatment they need.

Child and Youth Mental Health Agencies

The Ministry of Children and Youth Services gave little direction to child and youth mental health agencies as to what kind of services should be provided, had minimal waiting-list data, and generally lacked information about what results were achieved for the funding provided to these agencies. Accordingly, the Ministry could not make an informed assessment of whether children and youth with mental health needs were getting the care and treatment they needed in a timely manner.

Community Mental Health

As they do with addiction service providers, the LHINs now have oversight responsibility to ensure that people with mental illness are receiving the level of care they need from community-based service providers to lead fulfilling lives in the community. We found in this audit (as we had in our 1997 and 2002 audits of this program when it was delivered directly by the Ministry of Health and Long-Term Care) that there is insufficient information available to know whether this is being achieved. Given the recent significant reduction in the number of mentally ill people in institutions, it is absolutely critical that adequate community-based support systems be in place if these people are to be able to cope effectively once they are residing in the community.

Employment and Training Division

Meeting Ontario's labour-market demand for skilled tradespeople will only be possible if apprentices successfully complete their training programs; yet over one-half did not. The Ministry of Training, Colleges and Universities did not have enough information to explain why this was happening. As well, the Ministry did not know whether those clients funded through the skills development program remained employed in the fields they were trained for, nor whether self-employment program clients were able to sustain the new businesses the Ministry helped them start.

LACK OF PROGRESS IN AREAS PREVIOUSLY AUDITED

Some of this year's audits examined programs that we have previously audited as part of our cyclical audit approach. In a number of these audits we noted that, although some progress had been made to address issues we had raised in our last audit, there are still critical issues, some of which could affect public safety, that had not yet been adequately addressed. For example:

Adult Institutional Services

The Ministry of Community Safety and Correctional Services continues to have a serious problem with absenteeism among correctional officers. While our follow-up in 2002 indicated that the average number of sick days had declined slightly to 14 days from the 16 reported in our *2000 Special Report on Accountability and Value for Money*, our current audit found that the average has risen to over 32 days and is now costing the Ministry $20 million annually in overtime and contract staff costs.

Commercial Vehicle Safety and Enforcement

Despite a number of good initiatives by the Ministry of Transportation to improve commercial vehicle safety since our last audit in 1997, over

9% of all collisions in Ontario still involve a commercial vehicle. Procedures to ensure that high-risk operators are targeted for vehicle and facility inspections, and for enforcement action, needed further strengthening. For instance, only three of every 1,000 commercial vehicles were subject to roadside inspections in 2007.

Court Services

The backlog of criminal charges in Ontario's courts has continued to grow. A Supreme Court of Canada decision noted that eight to 10 months is a reasonable time frame within which criminal cases should go to trial. It is therefore of particular concern that there was a growing backlog of about 106,000 criminal charges pending for more than eight months. One of the main causes for the increased backlog is a 50% increase in the past decade in the average number of court appearances before a case goes to trial—from 5.9 appearances in 1997 to 9.2 appearances in 2007. Even though this is a key cause of the increasing backlog, the Ministry of the Attorney General does not have adequate information on the reasons for this significant increase.

Food Safety

Our 2001 audit noted weaknesses in the inspection of abattoirs and dairy distributors by the Ministry of Agriculture, Food and Rural Affairs that had still not yet been fully addressed at the time of this year's audit. Continuing weaknesses in the monitoring of provincially licensed abattoirs, dairy processing plants, and meat processors (for which the Ministry assumed responsibility in 2005) suggest that a number of plants may have sanitation problems. While the Ministry indicated there was no immediate health risk, we would have expected a more rigorous and risk-based inspection regime to have been implemented in certain instances.

Gasoline, Diesel-fuel, and Tobacco Tax

Overall, the Ministry of Revenue's current policies, procedures, and information technology systems are still inadequate to ensure that the correct amounts of tobacco, gasoline, and diesel-fuel taxes are being declared and paid. We were particularly concerned with the growing difference between the amount of tax that should be collected on tobacco products and the amount that is collected. This gap has increased significantly since our 2001 audit and may well be in the $500 million range.

Special Education

Although progress has been made since our last audit in 2001, the Ministry of Education and the school boards we visited this year still do not have sufficient information on students with special education needs, including the effectiveness of the education programs provided to them. This is especially important given that special education funding has increased by over 50% since 2001/02 while the number of students served has increased by only about 5%.

Conclusion

Given the complexities and competing priorities involved in planning and managing the programs and services highlighted above, we do not expect improvements to occur overnight. However, it has been six years since our last audit of most of these programs, and significant problems remain in several key areas. Clearly, improvements in these areas are needed.

THE PROVINCE'S FINANCIAL STATEMENTS

The Auditor General Act requires that I report annually on the results of my examination of the province's consolidated financial statements. I am pleased to report that, in my opinion, the province's financial statements for the fiscal year ended March 31, 2008, fairly reflect the province's financial position and the operating results. In Chapter 2, I also acknowledge that significant progress has been made by successive Ontario governments in their financial reporting, applying the standards of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).

However, as further discussed in Chapter 2, I am especially concerned about one issue that arose during the past year relating to certain provisions in the *Investing in Ontario Act, 2008* (Act) that became law on May 14, 2008. These provisions require that all transactions under the Act be recorded in the consolidated financial statements as expenses of the province (regardless of whether or not they would qualify as expenses under generally accepted accounting principles as established by PSAB). When the Act was introduced, I wrote to the Deputy Minister of Finance and Secretary of Treasury Board, with a copy to the Minister, and also wrote to the Chair of the Standing Committee on Finance and Economic Affairs, urging them to remove these provisions. I offered to appear before the Committee to discuss my concerns, but the government majority on the Committee voted down a motion to allow me to appear before the Committee. The legislation was passed shortly thereafter without my concerns being addressed. I do not support the establishment of accounting principles through legislation because I believe the government should follow generally accepted accounting principles established for governments by PSAB, an independent standard-setting body, to determine how all transactions of the government should be accounted for.

Value-for-money Audit Summaries

The following are summaries of the value-for-money audits reported in Chapter 3 of this Annual Report. For all of the audits reported in Chapter 3, we received commitments from the relevant ministries, agencies, and organizations in the broader public sector that they would take action to address our concerns.

3.01 ADDICTION PROGRAMS

More than 150 service providers offer addiction treatment services across the province. Prior to the passage of the *Local Health System Integration Act, 2006*, these providers were directly accountable to the Ministry of Health and Long-Term Care's (Ministry) seven regional offices. With the passage of the legislation, the Ministry transferred responsibility for these providers to 14 Local Health Integration Networks (LHINs) across the province. The Ministry still retains ultimate accountability for the health-care system. It is responsible for ensuring that the LHINs are held accountable for the performance of their local health system and that people across Ontario have access to a consistent set of health-care services.

For the fiscal year ended March 31, 2007, the Ministry provided $129 million in addiction transfer payments to combat substance abuse and problem gambling. This $129 million represented an increase of $31 million, or 32%, since our last audit in 1999. We found that there is still significant work to be done to ensure that people with addictions are being identified and are receiving the services they need in a cost-effective manner. As well, at least in the short term, most LHINs will be challenged in effectively assuming responsibility for overseeing local service providers. Some of our more significant observations were as follows:

- More than 90% of the population that the Ministry estimated as needing addiction treatment has not been identified as needing treatment or has not actively sought treatment, or the treatment services were not available.
- The majority of the addiction service providers [illegible] wait times [illegible] wait times and large variance between service providers. For example, youths seeking help for substance abuse could wait for as little as one day or as long as 210 days, with an average wait time of 26 days, to receive an initial assessment.
- Although one ministry objective is to provide addiction treatment as close as possible to the client's home, over the years from 2004/05 to 2007/08, about 200 youths seeking help for addictions were sent out of country for treatment at an average cost of about $40,000 each.
- Addiction funding was based on historical levels rather than assessed needs. Ministry analysis showed that per capita funding across the 14 LHINs ranged from about $3 per capita to more than $40 per capita. This can result in clients with similar addiction needs receiving significantly different levels of service, depending on where in Ontario they live.
- Most of the service providers we visited advised us that, despite increased demand, they were forced to reduce their staff numbers and substance-abuse services because funding had not kept pace with inflationary increases.
- We noted wide variations in caseloads and costs among service providers for similar addiction treatments. For example, problem-gambling guidelines for service providers suggested a caseload of 50 to 60 clients per year for the first counsellor and 100 to 120 clients per year for each additional counsellor. However, almost half of the service providers served fewer than 50 clients per year per counsellor, while one service provider served only three clients per counsellor, at a cost of $26,000 per client for the year.

3.02 ADULT INSTITUTIONAL SERVICES

The Adult Institutional Services (AIS) division of the Ministry of Community Safety and Correctional Services [illegible] adults in Ontario, including convicted offenders serving sentences of less than two years and accused persons remanded in custody awaiting bail or trial. In the 2007/08 fiscal year, AIS incurred $575 million in operating expenditures, primarily for the cost of 5,500 staff, to incarcerate about 8,800 inmates.

Over the last decade, it has had to respond to significant changes in its inmate population, including an 11% increase in the number of inmates and a doubling of the number of inmates remanded in custody and requiring maximum security. This is one reason that, although it has invested more than $400 million in capital infrastructure renewal over the past decade, it has been unable to meet its commitment to significantly reduce the average cost of incarcerating inmates.

Some of our more significant observations include the following:

- The Ministry set a target to have one of the lowest operating costs for correctional institutions in Canada, but Ontario still ranks highest when compared to the other larger provinces.
- The Ministry's transformation strategy, launched in 2004/05 with plans to eliminate 2,000 beds by 2007/08 and save $60 million annually, has not produced the anticipated results. AIS now has almost 1,000 more inmates than when the strategy was introduced, and Ontario's correctional institutions currently operate at 100% capacity. They are overcrowded and at increased risk for inmate disturbances, labour-relations issues, and health-and-safety problems for staff and

inmates. The Ministry predicts that it may be short 2,000 beds by 2010/11.

- The Ministry's intent since 2002 has been for up to 1,300 offenders to serve their sentences in the community using electronic devices to monitor their whereabouts. However, fewer than one-third of this number actually serve.
- The Ministry has made progress in establishing programs to divert people with mental disorders from the criminal justice system and correctional facilities. However, it did not have sufficient information on inmates' mental-health status and did not know whether it was providing adequate and appropriate treatment and care for inmates with mental illness and special needs.
- AIS had neither adequate information nor rigorous detection practices, such as random drug testing, to determine the extent and impact of the use of alcohol and illicit drugs in its facilities.
- AIS continues to have a serious problem with absenteeism among correctional officers, including the abuse of sick leave and overtime provisions. Based on an eight-hour day, correctional officers took an average of 32.5 sick days per year, which cost AIS about $20 million annually in replacement and overtime costs. With overtime, some correctional officers made over $140,000 a year—more than double their annual base salary.

The Ministry is taking a lead role in an interprovincial and territorial task force to study the changing characteristics of the adult inmate population and to identify opportunities to improve co-operation in the delivery of correctional services in Canada. We believe this is a good initiative that could help to address some of the above issues.

3.03 BRAMPTON CIVIC HOSPITAL PUBLIC-PRIVATE PARTNERSHIP PROJECT

In August 2003, William Osler Health Centre (WOHC) reached an agreement with a private-sector consortium for the development of a new 608-bed hospital in Brampton using the Public-Private Partnership (P3) approach, one of the first Ontario hospitals to do so. Under this arrangement, the consortium would design, construct, and finance the new hospital as well as provide certain non-clinical services. In return, WOHC agreed to pay the consortium a monthly payment over the 25-year service period of the arrangement.

It was not until after the government of the day directed WOHC to follow the P3 approach that WOHC was directed to compare the estimated costs for the government to build and provide the non-clinical services under the traditional procurement approach to having the private sector deliver them under P3. We concluded that the assessment was not based on a full analysis of all relevant factors and was done too late to allow any significant changes or improvements to be made to the procurement process.

Over the approximately three-year construction period from 2004 to 2007, the total cost came to $614 million, comprising $467 million in design and construction costs for the hospital, which was built on a reduced scale; $63 million primarily for facility modifications mainly to accommodate equipment installation; and $84 million in financing costs.

Our audit identified a number of issues that indicated that the all-in cost could well have been lower had the hospital and the related non-clinical services been procured under the traditional procurement approach. For instance:

- A consulting firm engaged by WOHC estimated in September 2000 that the cost for the government to design and build a new hospital would be approximately $357 million (updated to $381 million in October 2001). A second consulting firm was engaged in January 2003 and estimated a cost of $507 million (updated in November 2004 to $525 million). We questioned the large difference in the two estimates.

- The cost estimates for the government to construct the new hospital and to provide the non-clinical services the traditional way over 25 years were significantly overstated, in that depreciation was inappropriately included as a non-clinical service cost, as were utilities and property insurance—which WOHC would be responsible for regardless of who provided the non-clinical services.
- WOHC added to the estimates for the government to design and build a new hospital an estimated $67 million, or 13% of the estimated total design and construction cost, in risks of cost overruns transferred to the private sector. We questioned the inclusion of such a large amount because a properly structured contract under a traditional procurement agreement could have mitigated many of the risks of cost overruns.
- The province's cost of borrowing at the time the agreement was executed was cheaper than the weighted average cost of capital charged by the private-sector consortium—yet the impact of these savings was not included in the comparison costs between the traditional procurement and the P3 approach.

As with any new process, there are inevitably lessons to be learned. In responding to our recommendations for future P3 projects, Infrastructure Ontario—the Crown agency now responsible for managing most government infrastructure projects—and its ministry partners indicated that most of the issues we raised are now being handled differently to better ensure the cost-effectiveness of current projects.

3.04 CHILD AND YOUTH MENTAL HEALTH AGENCIES

The Child and Youth Mental Health program of the Ministry of Child and Youth Services (Ministry) provides funding to transfer payment agencies that provide a broad range of services and supports to children and youth up to the age of 18 who have mental health needs or disorders. In the 2007/08 fiscal year, expenditures under this program were approximately $502 million, of which $434 million or 86% was paid to transfer payment agencies.

We last audited the Ministry's administration of this program in 2003, but this year's value-for-money audit focused on four specific agencies providing these services. This was made possible by the expansion of the mandate of the Office of the Auditor General, effective April 1, 2005, to include value-for-money audits of organizations in the broader public sector receiving transfer payments. This was our first such audit of the agencies delivering this program.

Typical services and supports provided under the Child and Youth Mental Health program include intake and assessment; group, individual, and family counselling; residential or day treatment programs; and crisis intervention. The majority of the expenditure is for programs and services that are delivered in a non-residential setting. Because this program is not mandated in legislation, services can be provided only up to the system's existing capacity, which is determined largely by the amount and allocation of ministry funding rather than by need.

Several of our audit observations were similar to those identified during the ministry audit in 2003. We found that agencies needed to:

- jointly improve their assessment and referral procedures across the province to prevent situations where:
  - a parent has a child with a mental health issue and does not know where to call to get help or may have to make many calls to different agencies to try to determine what

services are available, what services would best serve the child's needs, and what process to follow to get that service for the child; and
  - a child with less severe or urgent needs is being treated while no services are available for a child with more severe or urgent needs.
- develop reasonable case-management standards for the provision of a broad range of non-residential services, and implement an internal quality-assessment or peer review process to assess whether those standards are being adhered to; and
- capture and report more meaningful information with regard to the number and type of services rendered for funds received, and the outcomes achieved with these funds.

In addition, the agencies advised us that, since there have been few or no annual funding increases for their core programs—including their administrative activities—over the last 10 years, they have had considerable difficulty in maintaining their core services and to do so have often had to "rob Peter to pay Paul"—that is, use funding other than for the purpose for which it was originally intended. Current funding constraints notwithstanding, agencies need to be more vigilant to ensure that they receive, and can demonstrate that they received, value for money spent. In this regard, we made several recommendations, including that agencies should:

- establish and/or adhere to competitive purchasing practices and ensure that all paid invoices contain sufficiently detailed information to establish the reasonableness of the amounts billed and are appropriately approved before payment;
- acquire vehicles for staff use only when it is economical to do so, and strengthen the controls over reimbursements to staff for use of personal vehicles for work; and
- establish reasonable workload benchmarks that would enable all providers to compare their overall staffing levels.

3.05 COMMERCIAL VEHICLE SAFETY AND ENFORCEMENT PROGRAM

The Road User Safety Division of the Ministry of Transportation (Ministry) focuses on improving safety and security for Ontario road users. Its activities include the regulation of commercial vehicles operating in the province and enforcement of safety standards. In the 2007/08 fiscal year, the Ministry spent over $39 million on its commercial-vehicle enforcement program.

Initiatives undertaken by the Ministry have contributed to a reduction in both the rate of fatalities involving commercial vehicles and the rate of collisions per 1,000 kilometres driven by commercial vehicles. However, as 9.2% of all collisions in Ontario still involve a commercial vehicle, the Ministry must increase its efforts to identify high-risk operators and strengthen its enforcement activities and its oversight of private-sector motor-vehicle-inspection stations. Our more significant observations included:

- The Ministry implemented a number of safety initiatives targeting commercial vehicles and drivers, including limits on driver hours of operation, legislated reductions to commercial vehicle speeds, impounding vehicles with critical defects, and implementing a new operator-safety rating system.
- While the Ministry relies on the Commercial Vehicle Operator's Registration (CVOR) system to track operator safety records, some 20,600 operators that have been involved in collisions, convicted, or pulled over for a roadside inspection in Ontario do not have the required CVOR certificate, and the Ministry initiates little follow-up action. The Ministry also does not know the number of operators currently on the road because there is no

requirement for CVOR certificates to be periodically renewed.

- The number of roadside inspections conducted by the Ministry has dropped by 34% since 2003/04 to approximately 99,000 annually. In 2007, only three out of every 1,000 commercial vehicles were subject to such inspections.
- A disproportionate percentage (65%) of roadside inspections was conducted between 6:00 a.m. and 2:00 p.m. Although 21% of commercial-vehicle trips occur at night, only 8% of inspections were conducted at night.
- We noted that enforcement officers were averaging only one to two roadside inspections per day. Inspections were not being done consistently across Ontario, and standards for issuing safety certifications to commercial vehicles were outdated.
- More than 140 bus terminal inspections were overdue, with some terminals not having been inspected for more than four years. In fact, 76 terminals had never been inspected, including four with over 100 buses each.
- The available impoundment facilities were inadequate, and inspectors often could not retrieve operator safety records from the CVOR system quickly enough to use them in deciding which vehicles warranted a full inspection.
- We noted 18,000 United States collisions or roadside inspections involving Ontario operators that had not been included in Ontario operator records as required by the federal *Motor Vehicle Transport Act*.
- Ministry interventions against high-risk operators have been declining since 2003, and the most serious interventions, such as suspension or revocation of an operator's CVOR certificate, dropped by 40%. As well, two-thirds of 740 operator facility audits required by ministry policy for higher-risk operators were cancelled by ministry staff.
- Meeting the goals of the Canadian national road safety plan will be challenging. While the number of fatal collisions involving commercial vehicles has been gradually dropping and the serious injury rate has declined by 9.7% over a four-year period, both are still well short of the 20% reduction by 2010 called for under the plan.

3.06 COMMUNITY MENTAL HEALTH

The Ministry of Health and Long-Term Care (Ministry) provides transfer payments to 14 Local Health Integration Networks (LHINs) that, in turn, fund and manage about 330 community-based providers of mental-health services. In the 2007/08 fiscal year, funding to community-mental-health services in Ontario was about $647 million.

Recent studies showed that one in five Ontarians will experience a mental illness in some form and to some degree in their lifetime; about 2.5% of them are categorized as seriously mentally ill. Mental-health policy in Ontario has been moving from institutional care in psychiatric hospitals to community-based care in the most appropriate, effective, and least restrictive setting. Our audit found that, while progress has been made in reducing the number of mentally ill people in institutions, the Ministry, working with the LHINs and its community-based partners, still has significant work to do to enable people with serious mental illness to live fulfilling lives in their local community. We identified the following key issues:

- The Ministry was still far from achieving its target of spending 60% of mental-health funding on community-based services. In the 2006/07 fiscal year, the Ministry spent about $39 on community-based services for every $61 it spent on institutional services.
- While some progress has been made, the LHINs and service providers we visited acknowledged that many people with serious mental illness in the community were still not receiving an appropriate level of care. Of those people in hospitals, many could be discharged into

the community if the necessary community-mental-health services were available.

- There were lengthy wait times for community-mental-health services, ranging from a minimum of eight weeks to a year or more, and about 180 days on average.
- Formal co-ordination and collaboration among stakeholders, including community-mental-health service providers, relevant ministries, and LHINs, was often lacking.
- The Ministry transferred responsibility for delivery of community-mental-health services to the LHINs on April 1, 2007, but the LHINs still face challenges in assuming responsibility for effectively overseeing and co-ordinating community-based services.
- Community-mental-health service providers were significantly challenged in their ability to maintain service levels and qualified staff, given an average annual base funding increase of 1.5% over the last few years.
- Funding of community-mental-health services continued to be based on past funding levels rather than on actual needs. Historical-based funding resulted in significant differences in regional average per capita funding, ranging from a high of $115 to a low of $19.
- There was a critical shortage of supportive housing units in some regions, with wait times ranging from one to six years. Housing units were unevenly distributed, ranging from 20 units per 100,000 people in one LHIN to 273 units per 100,000 people in another. While some regions had shortages, others had significant vacancy rates, which were as high as 26% in the Greater Toronto Area.
- While the Ministry has implemented two new systems to collect data for the community-mental-health sector, this initiative will only be successful if the data is complete, accurate, and useful.

3.07 COURT SERVICES

The Court Services Division (Division) of the Ministry of the Attorney General (Ministry) supports the operations of the courts system, including more than 225 courthouses and office facilities, with 3,000 support staff. The Division's expenditures for the 2007/08 fiscal year were $405 million, including $156 million to operate judges' offices and for salaries and benefits of provincially appointed judges and justices of the peace, and another $249 million on staffing and other court operating costs. In addition, the Ministry spent about $77 million on capital projects to improve court buildings.

In our 1997 and 2003 audits, we reported that serious court backlogs were growing—particularly for criminal cases in the Ontario Court of Justice—and that more successful solutions were needed to eliminate these backlogs. Over the last five years, the Ministry has undertaken a number of initiatives, worked collaboratively with the Judiciary, and increased operating funding for courts. Despite these efforts, the backlogs have continued to grow and, at the time of our audit, were at their highest levels in 15 years.

Our more significant observations were as follows:

- Over the last five years, criminal charges pending in the Ontario Court of Justice grew by 17%, to over 275,000, while the number of charges pending for more than eight months increased 16%. Ministry initiatives to address criminal-case backlogs in certain courthouses were insufficient to handle the growth in new criminal charges. Backlogs for family-law cases, including those relating to child protection, also continued to grow.
- The Ontario Court of Justice may not have sufficient judicial resources to meet the increased demand for judicial decisions. To be comparable to other provinces, Ontario would have to hire significantly more judges and justices of the peace, as well as provide additional court facilities and support staff.

- The Ministry does not yet have adequate information on the reasons for an over 50% increase over the last decade in the number of court appearances before a case goes to trial, despite this being one of the main causes of the growing backlog.
- Qualifying low-income defendants experienced difficulties and delays in obtaining Legal Aid Ontario funding, leading to court delays and more frequent court appearances.
- The Ministry has made little progress in implementing new technologies to improve the efficiency of the courts, especially for handling criminal cases.
- The Ministry has not formally assessed the significant differences in court operating costs in the various regions of the province. For example, it cost up to 43% more to dispose of a case in the Toronto Region than elsewhere.
- There continues to be no minimum standard applied for security in court locations across the province.
- The Ministry had not appointed a sufficient number of justices of the peace to preside over municipally administered courts, leading to court closures and lost revenues for municipalities until late 2007, when additional justices of the peace were made available.

In June 2008, the Ministry for the first time announced publicly stated targets for reducing the provincial average of days and court appearances needed to complete criminal cases: it aims to reduce these by 30% over the next four years.

3.08 EMPLOYMENT AND TRAINING DIVISION

The Employment and Training Division (Division) of the Ministry of Training, Colleges and Universities (Ministry), its local offices, and some 1,200 service providers offer programs and services to train skilled labour, prepare unemployed Ontarians to enter or re-enter the workforce, help students find summer employment, and assist workers facing business closures or other workforce adjustments. Since the signing of the Labour Market Development Agreement with Canada, effective January 1, 2007, the Ministry became responsible for the federal programs referred to as Ontario Employment Benefits and Support Measures. Canada provided more than $529 million for these programs in the 2007/08 fiscal year and $53 million for administration, including salaries and benefits for over 500 staff.

These programs are to be integrated with the Division's existing employment and training programs, increasing spending to more than $900 million annually to provide improved labour market and re-employment services. Our audit focused on two pre-existing ministry programs and two transferred federal programs, which together accounted for over $400 million in Division expenditures in the 2007/08 fiscal year.

With respect to the two pre-existing ministry programs, Apprenticeship Training and Literacy and Basic Skills, we found that, although the Ministry has made improvements and has increased apprenticeship opportunities and registrations, fewer than half of apprentices successfully complete their training. Also, half of all apprentices fail their final certification exams. The Ministry also needed to establish funding policies that further reduce inequities among Literacy and Basic Skills service providers and improve client outcomes.

With respect to the two programs transferred from the federal government, Skills Development and Self-Employment, we found that the Ministry needed to take further steps to ensure their consistent and fair delivery across the province. Some of our other observations included the following:

- Apprenticeship training consultants at the field offices we visited were unable to conduct more than a few, if any, monitoring visits to employers and in-class training providers. They also noted excessive emphasis on meeting registration targets rather than increasing the number who successfully become certified.

- The Ministry had no strategy to increase apprenticeship registrations in high-demand skilled trades. Most of the recent increase has been in the service sector.
- Most of the responsibility to ensure that only certified individuals work in trades that are restricted for safety reasons has been delegated to Ministry of Labour inspectors. Enforcement activity has increased since our last audit, particularly in the construction industry. However, the Ministry has not adequately co-ordinated its efforts with the Ministry of Labour and other bodies to ensure effective enforcement in sectors such as motive power (vehicle and equipment servicing).
- We found, and internal ministry reviews confirmed, inconsistencies in how local offices decide how much support to provide to clients of the Skills Development and Self-Employment Programs: clients in similar financial circumstances may receive quite different amounts.
- We found some individual client training agreements in the Skills Development Program that cost the Ministry more than $50,000 and were not necessarily in line with program objectives. Agreement costs were subsequently capped at $28,000.
- The Ministry did not have adequate information on whether clients remained employed in the fields they were trained for and whether self-employment clients were able to sustain their new businesses.

3.09 FOOD SAFETY

The Ministry of Agriculture, Food and Rural Affairs (Ministry) administers a number of statutes aimed at minimizing food safety risks. To help achieve compliance with legislation, the Ministry has systems and procedures for licensing, inspecting, and laboratory-testing various food groups produced and sold exclusively in Ontario. In the 2007/08 fiscal year, total expenditures on food safety were approximately $48 million. Our more significant findings with respect to meat, dairy, and foods of plant origin were as follows:

- The Ministry is to conduct annual licensing audits of provincial abattoirs (which account for about 10% of all animals slaughtered in Ontario) and freestanding meat processors. We noted that licensing audits found significant deficiencies at a number of plants, some plants had a deficiency rate of close to 30% for the standards examined, and many deficiencies were repeat violations from previous audits. To better ensure the safety of meat and meat products, the Ministry needs to ensure that timely corrective action is taken when significant violations are found.

  In addition, we noted that there had been a lack of systemic follow-up or corrective action to address adverse results from the Ministry's laboratory tests for microbial organisms (bacteria) and chemical substances in meat and meat products. For example, a study of 48 newly licensed freestanding meat processors in the Greater Toronto Area in 2006 to determine the prevalence of pathogens and contamination on equipment and food-contact surfaces found high rates of bacteria. Although the Ministry advised us that a high count of microbial indicators does not, in itself, pose an immediate public health risk, the results could indicate a lapse in sanitation or a process failure that increases the risk of food-borne illness.
- The Ministry has delegated the responsibility for administering and enforcing various quality and safety provisions of the legislation for cow's milk to the Dairy Farmers of Ontario. Laboratory tests are also performed routinely for bacterial content, somatic cell counts (an indicator of infection in the udder), and antibiotic residues, and there are severe financial penalties for non-compliance.

However, we noted weaknesses in the Ministry's inspection of dairy processing plants and distributors, such as licences being renewed before an inspection has been completed, minimal inspections of distributors, and inadequate documentation of the inspection results. In addition, results from the testing of fluid milk and cheese products showed instances of bacterial counts that suggested a number of processing plants were having difficulty maintaining adequate sanitation standards in their plants.

- For foods of plant origin, there are limited enforceable provincial food safety standards. Nevertheless, the Ministry, on its own initiative, has been collecting samples of fruits, vegetables, honey, and maple syrup and having them tested. In the 2007/08 fiscal year, the Ministry conducted over 2,400 tests and found adverse results for 2% of the samples. The contaminants included lead in processed honey and maple syrup, chemical residues in fruits and vegetables exceeding Health Canada's maximum allowable limit, and microbial contaminants (listeria and salmonella) in minimally processed vegetables. When non-compliance was detected, the Ministry collected additional samples from the same producers for further testing; the non-compliance rate on those second samples has been about 20%. While the Ministry could notify and educate the producers regarding its findings, its enforcement authority is too limited for further action.

Finally, we noted that to manage food safety risks better, the Ministry needs to develop a more comprehensive risk-based strategy to guide its priorities and activities.

3.10 GASOLINE, DIESEL-FUEL, AND TOBACCO TAX

In the 2007/08 fiscal year, the Ministry of Revenue (Ministry) collected taxes on tobacco, gasoline, and diesel fuel totalling $4.3 billion, which accounted for about 6.2% of the province's total taxation revenue from all sources.

We believe that the tax gap—which is the difference between the amount of tax that should be collected and the amount that is collected—has increased significantly with respect to tobacco since our 2001 audit of tobacco-tax collection. In fact, we believe that the tax gap with respect to tobacco, on the basis of tobacco tax rate increases, could well be in the $500-million range in the 2006/07 fiscal year, the estimated decrease in consumption since 2001 notwithstanding.

Regulations under *Ontario's Tobacco Tax Act* limit the total number of tax-free cigarettes a First Nations reserve may purchase; however, we understand that there are a number of manufacturers/wholesalers that have operations on reserves that sell significant quantities of cigarettes to reserves over and above the bands' existing allocations.

The Ministry is one of just three jurisdictions in Canada—Nunavut and the Yukon are the others—that do not limit sales of untaxed cigars on First Nations reserves. It is our view, as well as the Ministry's, that the tax forgone on cigar sales to and from reserves is significant.

Significant improvements to the Ministry's information-technology systems, along with changes to its policies and procedures, will be necessary before the Ministry can be assured that the correct amount of tobacco, gasoline, and diesel-fuel taxes is being declared and paid in accordance with the requirements of the law.

There is no process in place to assess the completeness and accuracy of information reported in returns for tobacco, gasoline, and diesel fuel. For example, the Ministry has no way to reconcile reported tax-exempt purchases and sales between designated collectors, or of verifying imports and exports reported by collectors against the independent information submitted by inter-jurisdictional transporters.

Our review of the Ministry's audit coverage for the largest and riskiest collectors noted that while all seven of the large gasoline and diesel-fuel tax collectors have been audited every four years as targeted, only a few of the 38 large tobacco tax collectors have been audited at least once every four years as planned.

3.11 HOSPITAL BOARD GOVERNANCE

Almost all public hospitals in Ontario are governed by a board of directors that is responsible for the hospital's operations and for determining the hospital's priorities in addressing patient needs in the community. We surveyed 20 hospital boards with respect to their governance practices and found that many had adopted a variety of best practices. However, many board members who responded to our survey indicated the need for clarification of the specific roles of hospital boards, the Local Health Integration Networks (LHINs), and the Ministry of Health and Long-Term Care (Ministry). As well, many board members identified areas where they felt hospital governance practices could be strengthened. Some of these areas, as well as observations arising from our research and other work, were as follows:

- Only slightly more than half of responding board members indicated that the information they received on their hospital's progress towards the achievement of the hospital's risk-management goals was "very useful," with most other members stating that it was just "moderately" or "somewhat useful."
- Almost 70% of board members indicated that information-technology skills were under-represented on their board, and almost 50% identified legal skills as being underrepresented.
- Ex-officio board members—persons appointed by virtue of their position within the hospital or another organization, such as medical and community groups, volunteers, hospital foundations, and municipalities—may be placed in the challenging position of representing specific interests that might, at times, be in conflict with the hospital's and community's best interests. A survey of hospital boards in the Greater Toronto Area noted that the average board had six ex-officio members, with one board having 12 such members out of a total of 25.
- More than 55% of hospitals have bylaws permitting individuals to pay a small fee or meet other criteria to become "community corporate members," which entitles them to elect the board members of the hospital. There is a risk that a hospital's priorities can be significantly influenced if enough board members are elected who have a specific agenda or represent a specific interest group.
- Various Ministry-funded reports have recommended that certain good governance practices, such as facilitating competency-based recruitment and setting term limits for directors, be addressed in legislation. This may warrant review when future amendments to the *Public Hospitals Act* are being considered.
- Good governance practices and lessons learned identified by reviewers, investigators, and supervisors of hospitals experiencing difficulties had not been routinely shared among hospital boards.

3.12 ONTARIO CLEAN WATER AGENCY

The Ontario Clean Water Agency (OCWA) operates 313 drinking-water systems and 225 wastewater systems for about 180 customers, mostly municipalities, on a cost-recovery basis. Other services provided by OCWA include project management for facility maintenance and construction; capital improvement planning; and loan financing. OCWA employs almost 700 staff and generated $120 million in revenue during the 2007 calendar year.

We found that OCWA generally had adequate procedures in place to ensure that it provides effective drinking-water and wastewater treatment services. As well, OCWA has been making headway in achieving full cost recovery in the operations side of its business. Nevertheless, we identified a number of areas where further improvements could be made:

- A regulation under the *Safe Drinking Water Act, 2002* requires OCWA to test drinking water for over 160 substances, such as *E. coli*, lead, and uranium. Overall, 99.6% of water samples tested met legislated quality standards. While OCWA-operated facilities experienced more adverse water-quality incidents than other provincial drinking-water systems on average, OCWA had relatively fewer incidents in the most high-risk microbiological category, such as *E. coli*.
- To help monitor the facilities it operates for compliance with legislation, OCWA has implemented a facility assessment review process and more in-depth compliance audits. Action plans are then developed for the compliance issues identified. As of mid-March 2008, OCWA's management system noted that 1,471 of the problems from 2007, or 70%, still had not been addressed.
- For a sample of operators we reviewed, over 10% were not listed as having the proper drinking-water certificate or wastewater licence. A number of these operators were listed as having expired certificates. Although we were subsequently provided with evidence that these operators had valid certificates, in other situations, staff with expired certificates or licenses are assigned to non-operational duties, which is not a fully productive use of staff resources.
- Over the last five years, OCWA's expenses have increased only 2.8% annually, on average, and OCWA has been successful in gradually reducing its operating deficit, from $9.5 million in 2003 to $1.3 million in 2007.
- The majority of OCWA's 205 contracts to provide facility operating and maintenance services are for a fixed price over several years, adjusted for inflation. Consequently, OCWA bears the risk of any price increases above the rate of inflation. In addition, its margin or mark-up on direct costs may not be sufficient to cover overhead costs and some contracts did not even recover all direct contract costs.
- We found that the employee travel expenses we tested were for legitimate business purposes and were properly approved. However, controls over the purchases of goods and services needed to be improved.
- OCWA needs better information to adequately monitor its field operations. In addition, it needs to enhance the reliability and usefulness of its reporting to the senior management committee and the Board of Directors to assist them in effectively meeting their respective management and oversight responsibilities. We did note that OCWA has recently been successful in adding several well-qualified members to its Board of Directors.

3.13 SCHOOL RENEWAL AND MAINTENANCE

Ontario has 72 district school boards with about 5,000 schools and 1.9 million students. About half of Ontario's schools were built at least 45 years ago. In 2002, the Ministry of Education (Ministry) hired consultants to inspect each school to assess its capital renewal needs and input the results into a database. The consultants concluded that addressing the capital renewal needs of Ontario schools by the 2007/08 fiscal year would cost $8.6 billion, of which $2.6 billion would be required to address urgent needs. Since 2005, the Ministry has committed $2.25 billion for essential repairs and renovations to Ontario's publicly funded schools through its Good Places to Learn initiative and a further $700 million to replace schools in the worst condition.

In the 2007/08 fiscal year, the Ministry also provided school boards with over $1.7 billion in grants for school operations, which are primarily used for ongoing maintenance, custodial services, and utilities. The Ministry also provided $382 million in capital renewal grants for expenses such as repairs and renovations.

Our audit focused on how three school boards—the District School Board of Niagara, the Durham Catholic District School Board, and the Kawartha Pine Ridge District School Board—managed and maintained their school facilities and used the funding provided by the Ministry.

Some of our more significant observations were as follows:

- The initiative to inspect each school in Ontario and enter the results into a database provided valuable information on the state of Ontario's schools and where renewal funds should be invested. Such a database can only continue to be useful, however, if it is kept up to date.
- Boards did not always spend the funds they received under the Good Places to Learn initiative in accordance with ministry requirements and on the highest-priority needs. Also, the Ministry needed an action plan to address schools that are considered to be uneconomical to maintain.
- All three schools boards we audited generally had good policies for the competitive acquisition of facility-related goods and services, and all three boards were generally following their prescribed policies. However, one board did not do so in purchasing approximately $3.5 million in plumbing services from four suppliers. Many invoices had been split into smaller amounts to avoid competitive purchasing requirements and lacked sufficient detail to verify the amounts charged. Our work indicated the board had also been overcharged $87,000.
- With respect to maintenance and custodial services, we found that there is little formal monitoring; expected service levels are rarely established; and only limited feedback is being obtained from teachers, students, and parents on how well their individual school is being maintained and cleaned. To identify inefficient or costly practices that warrant follow-up, school boards should more formally track the comparative costs for these services between schools within each board or between boards in the same geographical region.
- Electricity, natural gas, and water costs are a major expense. While all three boards had introduced energy conservation measures, they should be comparing energy costs for schools of a similar age and structure and following up on those instances where costs differ significantly between comparable schools. We noted instances where the average energy costs per square metre between schools in neighbouring boards differed by over 40%.

3.14 SPECIAL EDUCATION

The *Education Act* defines a student with special education needs as one who requires placement in a special education program because he or she has one or more special behavioural, communicative, intellectual, or physical needs. School boards make this determination, identifying the student's strengths and needs and recommending the appropriate placement. The Ministry of Education (Ministry) bases its special education policies and regulations on the principle that students with special education needs should normally be placed in regular classrooms. However, school boards may place a student in special education classes if this better meets his or her needs and is supported by the parents.

Special education grants are a significant component of funding for the province's 72 publicly funded school boards, amounting to $2.1 billion or over 12% of annual operating grants. While the Ministry has increased special education funding since the 2001/02 school year by 54%, the number of students served increased by only about 5% to 290,000 in 2006/07. Although provincial test results and our audit indicated that progress has been made since our last audit in 2001, there are still a number of areas where practices need to be improved to ensure that the significant funding increases result in continuous improvement in the outcomes for students with special education needs in Ontario.

Some of our more significant observations were as follows:

- The proportion of Individual Education Plans (IEPs) in our sample completed by the due date improved from 17% in our 2001 audit to about 70% in this audit. The availability of [illegible] has improved. However, the information that school boards currently collect about students with special education needs, how early they are identified, the educational programs provided to them, and the results achieved was not yet sufficient to support effective planning and service delivery and program oversight.
- The IEPs that we examined varied in how well they set the learning goals and expectations for students with special education needs working toward modified curriculum expectations. The learning goals and expectations for numeracy and literacy were generally measurable. However, those for other subjects were often vague. As a result, schools could not measure the gap between the performance of these students and regular curriculum expectations and assess student progress.
- Identification, Placement, and Review Committees (IPRCs) make significant decisions regarding the education of students with special education needs but do not adequately document why and how their decisions were made.
- The provincial report card is not designed to report on the achievement of the learning [illegible] informed about student performance.
- None of the school boards we audited had established procedures to assess the quality of the special education services and supports at their schools. This makes it difficult for both individual schools and the boards to know what kinds of improvements are needed to better serve students with special education needs.

Special Reports

In addition to the 14 value-for-money audits that are featured in this Annual Report, my Office also conducted four other value-for-money audits or follow-up reviews over the past year that were reported on in three special reports.

On January 29, 2008, at the request of the Minister of Children and Youth Services, I issued a Special Report entitled *Follow-up of 2006 Audits of the Child Welfare Services Program and Four Children's Aid Societies*, which contained the results of follow-up work on two of my Office's 2006 audits—our audit of the Child Welfare Services Program and our audit of four Children's Aids Societies—both operating under the oversight of the Ministry of Children and Youth Services. In this Special Report, we indicated that, while good progress had been made in a number of areas, there were still some areas where additional work was required. We acknowledged at that time that a lack of substantial progress in some areas could have been due to the relatively short time period between the tabling of my Annual Report in December 2006 and our follow-up work in fall 2007.

Almost five months later, on July [illegible], I issued a special report to the Minister of [illegible] under the Ministry [illegible] at the Minister's request. AgriCorp is responsible for delivering farm support programs and other services to Ontario's farmers. The report described how AgriCorp had had difficulty adapting to rapid changes caused by a substantial growth in the number of farm support programs and a doubling of annual support payments to farmers in recent years. We concluded that, despite these issues, there were two significant benefits—relating to cost and quality of service—to having Ontario continue to deliver the Canadian Agricultural Income Stabilization program as opposed to having it delivered by the federal government.

Finally, on September [illegible], I released the special report *Prevention and Control of Hospital-acquired Infections*. Hospital-acquired infections are those, such as *C. difficile*, that a patient acquires while in the hospital being treated for some other condition and that can cause illness or even death. This audit report was issued as a special report primarily because of a motion by the Standing Committee on Public Accounts, which encouraged my Office to report on this audit as soon as it was completed rather than waiting until the Annual Report (the audit was already under way at the time of the motion). This special report concluded that the Ministry of Health and Long-Term Care and the three hospitals we visited had implemented some good initiatives to manage the risk of infection outbreaks, but a lot more needed to be done. Specifically, my report indicated that hospitals need to work with their staff to improve hand-hygiene practices, identify improper antibiotic use, appropriately screen all new inpatients, and ensure that surgical instruments are properly sterilized.

All three reports are available on our website at www.auditor.on.ca or from our Office.

Acknowledgements

The Office expresses its sincere appreciation to the staff at the ministries, agencies, and broader-public-sector and other entities we audited this past year for their co-operation in providing us with the information and explanations required during the performance of our work.

The Auditor General and the Deputy Auditor General also extend their sincere appreciation to the staff of the Office for their dedication, their professionalism, and their hard work during a challenging year.

Chapter 2

Public Accounts of the Province

Introduction

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance, as required by the *Ministry of Treasury and Economics Act* (Act). The Public Accounts comprise the province's annual report, including the province's consolidated financial statements, and three supplementary volumes.

The consolidated financial statements of the province are the responsibility of the government of Ontario. This responsibility encompasses ensuring that the information in the consolidated financial statements, including the many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that a system of control, with supporting procedures, is in place to provide assurance that transactions are authorized, assets are safeguarded, and proper records are maintained.

Our Office audits the consolidated financial statements of the province. The objective of our audit is to obtain reasonable assurance that the province's consolidated financial statements are free of material misstatement—that is, that they are free of significant errors or omissions. The consolidated financial statements, along with our Auditor's Report on them, are included in the province's annual report.

The province's annual report contains, in addition to the province's consolidated financial statements and our Auditor's Report on them, a Financial Statement Discussion and Analysis section that provides additional information regarding the province's financial condition and fiscal results for the year ending March 31, 2008, including some details of what the government accomplished in the 2007/08 fiscal year. Providing such information enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

The three supplementary volumes of the Public Accounts consist of the following:

- Volume 1, which contains the ministry statements and a number of schedules providing details of the province's revenues and expenses, its debts and other liabilities, its loans and investments, and other financial information.
- Volume 2, which contains the audited financial statements of significant provincial corporations, boards, and commissions whose activities are included in the province's consolidated financial statements, as well as other miscellaneous financial statements.
- Volume 3, which contains detailed schedules of ministry payments to vendors and transfer payment recipients.

Our Office reviews the information in the province's annual report and in Volumes 1 and 2 of the Public Accounts for consistency with the information presented in the province's consolidated financial statements.

The Act requires that, except in extraordinary circumstances, the government deliver its annual report to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. The three supplementary volumes must be submitted to the Lieutenant Governor in Council before the 240th day after the end of the fiscal year. Upon receiving these documents, the Lieutenant Governor in Council must lay them before the Legislative Assembly or, if it is not in session, make the information public and then, when the Legislative Assembly resumes sitting, lay it before the Legislative Assembly on or before the 10th day of that session.

This year, the government released the province's 2007/08 Annual Report and Consolidated Financial Statements, along with the three Public Accounts supplementary volumes, on August 25, 2008.

The Province's 2007/08 Consolidated Financial Statements

The *Auditor General Act* requires that I report annually on the results of my examination of the province's consolidated financial statements. I am pleased to report that my Auditor's Report to the Legislative Assembly on the province's consolidated financial statements for the year ended March 31, 2008, is clear of any qualifications or reservations and reads as follows:

> *To the Legislative Assembly of the Province of Ontario*
>
> I have audited the consolidated statement of financial position of the Province of Ontario as at March 31, 2008, and the consolidated statements of operations, change in net debt, change in accumulated deficit, and cash flow for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.
>
> I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.
>
> In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2008, and the results of its operations, the changes in its net debt, the changes in its accumulated deficit, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.
>
> [signed]
>
> Toronto, Ontario
> August 1, 2008
>
> Jim McCarter, CA
> Auditor General
> Licensed Public Accountant

Objective Accounting Standards—Key to Credible Government Financial Statements

INTRODUCTION

The financial reporting environment is changing rapidly for both the private and the public sectors. The Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA), the national organization responsible for establishing accounting and reporting standards, has announced changes to the method of financial reporting used by some entities, including all publicly traded companies. By 2011, the current Canadian generally accepted accounting principles used to prepare the financial statements of publicly accountable, profit-oriented enterprises will be replaced by the accounting framework set out in International Financial Reporting Standards (IFRS). The AcSB of the CICA is also reviewing and updating the accounting standards applicable to not-for-profit organizations.

With respect to government financial statements, the CICA's Public Sector Accounting Standards Board (PSAB) has the authority to set accounting standards for the public sector. PSAB is working to address a number of complex financial accounting and reporting issues, including accounting for government transfers, financial instruments, foreign exchange, and how the adoption of IFRS by government business enterprises and government business-type organizations should be accounted for in a government's financial statements.

These changes reflect the ongoing globalization of financial markets and the movement toward worldwide standards in several areas of business and government. This movement includes not only accounting standards, but also auditing standards and securities regulation.

PUBLIC SECTOR ACCOUNTING BOARD (PSAB)—THE INDEPENDENT ACCOUNTING STANDARD SETTER

The CICA established the Public Sector Accounting Board (PSAB) in 1981 to develop public sector accounting and reporting standards. PSAB has grown in influence since that time, and in our view has served the public interest very well as an independent standard setter. Its standards now represent generally accepted accounting principles (GAAP) for governments in Canada. While its recommendations are not mandatory given the sovereignty of governments, they reflect best practices in government accounting. Their adoption demonstrates a government's commitment to transparency, credibility, consistency, and comparability in accounting and financial reporting. PSAB's success in achieving stakeholder consensus with its accounting and reporting standards is clearly demonstrated by the fact that, with very few exceptions, the consolidated financial statements of the federal and all provincial/territorial governments are now prepared in accordance with its standards.

Improvements in the Last 15 Years

Governments, including the province of Ontario, have introduced a number of major improvements in their accounting and financial reporting practices over the last 15 years. The key accounting and financial reporting milestones noted below are the result of moves by successive Ontario governments toward compliance with PSAB's evolving accounting standards:

- In 1993/94, the province's financial statements changed from being prepared on a modified cash basis of accounting, where revenues and expenditures were essentially recognized as monies were received or paid out in cash, to being prepared on the accrual basis of accounting, whereby revenues are recognized as they are earned and expenses are recognized as they are incurred.

- Also in 1993/94, the province's financial statements moved from a central revenue fund model, which generally included only the transactions affecting government ministries, to a consolidated model, which included the activities of agencies that were accountable to the Ontario Legislature and were owned or controlled by the government.
- In 1995/96, the Ontario Budget was for the first time prepared on a consolidated and accrual basis—that is, on the same basis as the province's financial statements—allowing for a true comparison of actual results against budget.
- In 1995/96, the province significantly enhanced its disclosure of financial instruments and derivatives.
- In 2002/03, the province introduced new policies to account for its investments in land, buildings, and transportation infrastructure. The province now accounts for such capital expenditures as long-term investments and amortizes the cost of these investments over the assets' estimated useful lives. This is consistent with how capital assets are accounted for in the private sector. Previously, the government's capital expenditures were charged to current year expenses as incurred.
- Commencing with the 2002/03 Annual Report, the province included an expanded discussion and analysis of its consolidated financial statements to provide a better understanding of its financial results.
- In 2003/04, the appropriations and estimates of the government, which set out the amounts the government requests of the Legislature annually and, once approved, reflect the government's legal spending authority, were for the first time also prepared on an accrual basis.
- In 2005/06, hospitals, school boards, and colleges were for the first time consolidated into the province's financial statements.
- In 2007/08, the province enhanced the transparency of its financial statements by providing segmented information on the major categories of its revenues and expenses.

PSAB's Standard-setting Process

> Accounting standards are authoritative standards for financial accounting and reporting developed through an organized standard-setting process and issued by a recognized standard-setting body (the Public Sector Accounting Board) (PSAB). Accounting standards specify how transactions and other events are to be recognized, measured, presented and disclosed in government financial statements. The objective of such standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.
>
> —CICA, "About PSAB"

PSAB consists of a maximum of 12 board members and a chair. To help ensure that PSAB standards are appropriate for governments, under its term of reference, two-thirds of PSAB board members are normally individuals involved with government financial reporting and auditing.

PSAB uses a consultative "task force" approach for developing standards and other guidance. After its members approve a project, PSAB usually appoints a task force consisting of individuals who have a particular expertise or interest in the subject area to research, develop, and draft the proposed new standard. PSAB ensures that the task force is provided with the necessary background information and research materials. The task force in turn makes its recommendations to PSAB.

PSAB emphasizes due process in order to ensure that both it and the task force raise and consider a wide range of views and issues. Developing an accounting standard typically follows a five-step process:

- basic research;
- approval of a project proposal;
- a statement of principles sent to a designated group of associates for initial feedback;
- one or more public exposure drafts which are issued for public comment by any interested individual or organization; and
- a final approved standard.

Another element in the accounting-standard-setting process is the requirement that any new standard be consistent with the CICA's overall conceptual framework. The CICA's conceptual framework consists of interrelated objectives and fundamentals that support the development of consistent accounting standards. As new accounting and financial-reporting issues arise, accounting-standard-setting bodies such as PSAB use this framework to ensure that any proposed standard is consistent with the CICA's overall financial reporting model.

Any final standard requires the approval of two-thirds of all members of PSAB.

Auditor General Act

We noted previously that the *Auditor General Act* requires the Auditor General to report annually on the results of the Auditor General's examination of the province's consolidated financial statements.

More specifically, subsection 12 (3) of the *Auditor General Act* requires that the Auditor General provide an opinion on "whether the consolidated financial statements of Ontario, as reported in the Public Accounts, present fairly information in accordance with appropriate generally accepted accounting principles." Our view is that generally accounting principles for governments are those recommended by the PSAB of the CICA.

Canadian Council of Legislative Auditors

My Office is not alone among legislative audit offices across Canada in supporting PSAB. This past year, the Canadian Council of Legislative Auditors (CCOLA), comprising the Auditor General of Canada and the Auditor General or Provincial Auditor of every Canadian province, wrote to the Chair of the CICA Accounting Standards Oversight Council (Council) expressing its full support for PSAB as the appropriate independent standard-setter for government financial accounting and reporting. In its letter, CCOLA emphasized the importance of the "due process" described earlier in helping to ensure that accounting standards consider the views of all stakeholders while maintaining the objectivity of the accounting standard-setting process.

On June 13, 2008, the Auditor General of Canada and I met with the Council to express the full support of Canada's legislative auditors for PSAB standards. Interestingly, there was considerable discussion of the *Investing in Ontario Act, 2008* that the Ontario Legislature recently passed. As discussed in the next section, this Act mandates that certain transactions be accounted for in the financial statements of the province in a manner that, depending on how the transaction is structured, may not be in accordance with generally accepted accounting principles.

MINISTRY RESPONSE

The province's consolidated financial statements are prepared in compliance with legislation and in accordance with generally accepted accounting principles for governments in Canada. The Auditor General expressed a clean opinion in his Auditor's Report, concurring that the province's financial statements for the year ended March 31, 2008, were prepared in accordance with Canadian generally accepted accounting principles.

Ontario and all other federal, provincial, and territorial governments in Canada have been part of a Joint Working Group with the Public Sector Accounting Board (PSAB) for more than a year to address a number of major concerns with the direction of the recent development of accounting standards for governments in Canada. The major areas of concern include:

- the consistency of PSAB's conceptual accounting framework with sound public policy decision-making, fiscal accountability, and public understanding of government financial information;
- the nature of PSAB's governance structure and its standard-setting process with respect to the breadth of representation of public-sector interests and the need for improvement in its standard-setting process; and
- the direction of proposed changes in accounting standards for financial instruments, government transfers, government business enterprises, and broader-public-sector organizations.

The recommendations of the Joint Working Group are expected to be submitted to the Accounting Standards Oversight Council and PSAB later this year. They are overwhelmingly supported by senior governments across Canada.

INVESTING IN ONTARIO ACT, 2008

Introduction

In March 2008, the government introduced Bill 35, the proposed *Investing in Ontario Act, 2008* (Act). The Act was passed by the Legislature and received Royal Assent on May 14, 2008. Under the Act and related regulations, the government can apply a portion of any unplanned surplus for the fiscal year to reduce the accumulated deficit, and also allocate a portion of the unplanned surplus to "eligible recipients" in order to address priority public needs as determined by the government in any given year. The portion of the unplanned surplus that would go to eligible recipients and toward reducing the accumulated deficit would be set out by regulation.

Accounting for Transfers under the *Investing in Ontario Act, 2008*

In 2007/08, under the Act and related regulations, of the total 2007/08 preliminary surplus of $1.7 billion, the government provided additional transfers to municipalities of $1.1 billion and allocated the final $600 million surplus to reducing the province's accumulated deficit. The transfers were provided after the tabling of the 2007/08 Public Accounts.

In assessing these transactions, we concluded that accounting for these transfers as an expense of the 2007/08 fiscal year was appropriate, as the PSAB criteria for expense recognition had been met. Specifically, we agreed that a liability had been established by the government prior to March 31, 2008, by its announcement of these transfers to municipalities in the 2008 Ontario Budget, and by the government's communication to municipalities of their entitlement to these funds once the audit of the province's financial statements for the year had been completed and the final surplus amount was determined. In addition, the government received appropriation approval prior to year-end.

Our Concern with Respect to Certain Clauses Contained in the *Investing in Ontario Act, 2008*

Although we accepted the government's accounting with respect to the year-end investments made under the Act, we do have a serious concern relating to certain sections in the Act that amend the *Fiscal Transparency and Accountability Act, 2004* (FTAA) and the *Ministry of Treasury and Economics Act* (MTEA).

Section 4 of the Act amends the FTAA by specifying that government transactions under the Act "shall be considered to be an expense of the Government of Ontario for that fiscal year." Subsection 5(2) of the Act amends the MTEA by further specifying that these amounts "shall be recorded as an expense of the Government of Ontario for that fiscal year in the summary financial statements as set out in the Public Accounts."

Our concern is that through this legislation the government has, for the first time that we are aware of, taken upon itself to decree how transactions will be accounted for rather than applying generally accepted accounting standards. The only possible purpose of these provisions is to enable the government to record such transactions as expenses under the Act, even though future transactions, depending how they are structured, might not be considered expenses under generally accepted accounting principles as established by PSAB. As noted previously, the PSAB of the CICA is recognized throughout Canada as the appropriate body for establishing accounting standards for the public sector. We support PSAB standards and believe that the method of accounting for government transactions should not be established by the government itself through legislation.

To elaborate on our concern, we believe that the CICA is well established as the Canadian accounting profession's independent standard-setting body, and the accounting standards it develops through its public-sector board (PSAB) provide governments with an objective and appropriate basis for accounting and reporting on transactions.

There are a number of PSAB accounting standards already in place that provide guidance to governments in recognizing and measuring expenses, including a distinct section on accounting for government grants, the subject of the Act.

Our concern with section 4 and subsection 5(2) of the Act is that they raise an obvious "what if" question as to how to account for transactions made under the Act that did not qualify as expenses under PSAB standards but were required to be expensed by the terms of the Act.

To illustrate by way of an example, one of the key principles in PSAB standards is that transfer recipients must have met the eligibility criteria for receiving grants before the government providing them can recognize such grants as an expense. Many of Ontario's social assistance programs are delivered at the municipal level, with municipalities entitled to receive transfers on a cost-shared basis, as they directly provide social assistance to eligible recipients. The Ontario government could provide advance payments to a municipality under the Act over and above those required to fund its share of the municipality's social assistance payments for that year, because it had excess funds available at year-end. These payments could be made under the proviso that the province would withhold payments in the next year until the municipality's "credits" under these cost-sharing programs had been exhausted. The government would then presumably treat these transfers as an expense of the current fiscal year. However, these payments would likely not meet PSAB criteria for expense recognition, as the municipality had not yet made the payments to its social assistance recipients relating to the advanced funds and thus had not yet "earned" these monies. If this were the case, under PSAB standards, the amounts provided should be treated as advances or as assets in the government's financial statements rather than expenses of the current year, and would be expensed in future periods as the eligibility criteria were met (that is, as the municipality made the social assistance payments to individual recipients).

Depending on the amounts involved, the annual fiscal results of the province could be significantly misstated if these legislative provisions were to be used in future to override PSAB standards. For instance, the government set aside up to $2 billion this year under the Act, and actually expended $1.1 billion of this allocation. These are significant amounts, so we believe our concern is more than just an academic one.

At the time of the introduction of Bill 35, I communicated my concerns in writing to the Deputy Minister of Finance and Secretary of Treasury Board on April 24, 2008, with a copy to the Minister of Finance, urging the Ministry of Finance to delete section 4 and subsection 5(2) of the Bill to avoid the potential for conflicting requirements in how transactions should be accounted for in the province's consolidated financial statements. I had hoped that this timely intervention by my Office would permit our concerns to be addressed by the government.

I also wrote on April 25, 2008, to the Chair of the Standing Committee on Finance and Economic Affairs, which was responsible for the clause-by-clause review of Bill 35, to express my concerns and offered to appear before the Committee to discuss my concerns more fully. Although a motion to permit the Auditor General, an Officer of the Legislative Assembly, to appear was put forward, it was voted down by the government majority on the committee and Bill 35 was approved a short time later without any amendments.

In summary, we hold the view that in the public sector, a fundamental principle of government accountability to its citizens is that it produce financial information in such a way that the Legislature and the public can rely on its credibility. For government financial statements to be credible, we further believe that users should have confidence that the statements adhere to generally accepted and identifiable standards that are established by an independent, arm's length standard-setting body.

As noted earlier, all governments over the past 15 years have made significant progress in enhancing the accountability, credibility, and usefulness of their financial statements. However, we are concerned that attempting to establish accounting principles through legislation may well be taking a step backward from the substantial progress made to date.

MINISTRY RESPONSE

The *Investing in Ontario Act* (Act) provides the government the option of allocating a portion of any unanticipated year-end surplus to priority provincial needs as well as to the reduction of the province's accumulated deficit. In the absence of this Act, all year-end surpluses would go to the reduction of the province's accumulated deficit.

Under this Act and related regulations, the province allocated $1.1 billion to municipalities for the year ended March 31, 2008, to help address their priority capital needs. This significant provincial investment will help address the municipal infrastructure deficit and is important for the province in these challenging economic times. This investment is expected to create 11,000 full-time jobs during the period of construction of these projects.

It is important that accounting policies support sound public policy. The Act provides assurance that governments will have a choice on the use of unanticipated year-end surpluses to meet priority public needs. The importance of accounting standards supporting sound public policy is a critical point that the inter-jurisdictional Joint Working Group is emphasizing to PSAB in its development of accounting standards for governments in Canada.

The Auditor General concurs that the $1.1 billion year-end investment in municipal infrastructure under the Act is a 2007/08 expense consistent with current PSAB standards. Unless accounting standards change, year-end one-time investments under the Act should continue to be accounted for under the legislation on a basis consistent with PSAB accounting standards. In future years, the Auditor General, as part of his audit of the Public Accounts, will continue to review any allocations under the Act to determine whether, in his opinion, they are compliant with the legislation and in accordance with appropriate generally accepted accounting principles.

Potential Change in Auditor's Standard Opinion

BACKGROUND

As part of its strategy to harmonize Canadian standards with international standards, the CICA's Auditing and Assurance Standards Board (AASB) is adopting International Standards on Auditing issued by the International Auditing and Assurance Standards Board (IAASB). Currently, the IASSB is working to redraft all its existing international standards and has indicated that the redrafted standards may be available for adoption as of December 15, 2009. The AASB plans to incorporate these redrafted international standards into its Canadian auditing standards as they are completed.

In adopting the international standards issued by the IAASB, the AASB also plans to adopt, with appropriate Canadian modifications, standards which deal with the form and content of an auditor's standard opinion. Under existing Canadian standards, except in very limited circumstances, audit opinions must indicate whether the financial statements being audited are presented fairly in accordance with Canadian generally accepted accounting principles (GAAP). The CICA has established standard wording for an auditor's report to ensure that its meaning is clear to knowledgeable users of financial statements.

The IAASB is proposing an expansion of the possible acceptable financial reporting frameworks for general-purpose financial statements. Specifically, it proposes that acceptable reporting frameworks will not only include financial reporting standards of an established standard-setting organization such as the CICA or PSAB, but also standards established by law or regulation, or standards established by authorized industry organizations.

THE PRIVATE SECTOR

Under the proposed new audit-reporting standard, in most cases the applicable financial reporting framework for profit-oriented entities will be Canadian GAAP, which will converge to IFRS in 2011. For example, under the *Canada Business Corporations Act*, all federally chartered public companies are required to prepare their financial statements in accordance with GAAP as established by the AcSB of the CICA. Canadian securities regulators also require GAAP-based financial statements.

These private-sector entities are required to adhere to GAAP for one main reason—to ensure that the reported fiscal and financial results in the financial statements are credible. For example, GAAP accounting helps ensure that private-sector entities that want to issue debt or sell securities in the capital markets not be able to distort their financial results by devising accounting policies that hide losses or inflate gains.

THE GOVERNMENT SECTOR

While it appears that the private sector will be required to follow generally accepted accounting standards established by the CICA in their general-purpose financial statements, this may not be the case for governments. Specifically, the new proposals raise the risk that a government could pass legislation establishing accounting policies that result in its financial statements not being fairly presented. While we are not implying that this will happen, the new reporting standard opens the door for this possibility.

My fellow legislative auditors and I share this concern. In February 2008, the Auditor General of Canada and the Auditors General or Provincial Auditors of all the Canadian provinces jointly wrote to the Chair of the AASB expressing our concerns. We noted that Canadian governments are sovereign and not required to use generally accepted accounting principles to prepare their general-purpose financial statements. We further noted that under the proposed standards an auditor would be required to state without reservation that the financial statements had been prepared in accordance with the prescribed financial reporting framework, regardless of whether he or she considered the framework used to be appropriate.

We also expressed concern that the proposed audit-reporting model would allow an entity to use disclosure as a substitute for appropriate accounting. Specifically, one provision in the proposed standards provides that when an *"unacceptable financial reporting framework is prescribed by law,"* the auditor must still issue an unqualified audit as long as the entity provides additional disclosures in its financial statements describing the matters that have not been appropriately accounted for in the financial statements. We do acknowledge that a Canadian modification to these standards is being proposed that would call for the auditor to highlight in his or her audit report that the entity has not used GAAP in preparing the financial statements and to explain the difference that makes to the statements. However, it is our view that accepting disclosure as a substitute for proper accounting is not appropriate.

In the concluding paragraph of our letter to the AASB, we highlighted the fact that Canadian public-sector accounting principles are highly respected internationally, and that it has taken many years for these principles to reach the point where they are generally accepted by our governments. However, the proposed audit-reporting model would appear to give permission to governments to return to earlier days when public-sector general-purpose financial statements were prepared on a basis of accounting chosen by the government rather than in accordance with independently established generally accepted accounting principles.

MINISTRY RESPONSE

It is important that the Auditor General respect both laws and generally accepted accounting principles in expressing his audit opinion on whether the province's consolidated financial statements present fairly its financial results.

Public Accounts Issues in 2007/08

My Office and the Ministry of Finance have had differing views on the most appropriate accounting treatment of a variety of issues over the years. This is certainly not uncommon, and typically we have been able to work together to resolve our differences. As a result, my predecessor and I have been able to issue an unreserved or "clean" opinion on the annual consolidated financial statements of the government since the province first adopted PSAB standards in the 1993/94 fiscal year—a period of 14 years. In my view, this demonstrates the commitment of both the government and my Office to produce consolidated financial statements in accordance with PSAB standards.

During this year's audit of the government's consolidated financial statements, we dealt with a number of accounting issues, most of which were satisfactorily resolved. There were two issues, however, where we still have a difference of opinion with the Ministry. Given the size of the Ontario government and the dollar value of its transactions, these issues did not affect my opinion on the consolidated financial statements' overall fairness. These issues included accounting for certain transfers provided to the province by other levels of government for investments in provincial infrastructure, and accounting for the rate-regulated assets and liabilities recorded by the Ontario Power Authority (OPA). As these two issues remain unresolved, they are discussed in the next two sections.

ACCOUNTING FOR CAPITAL TRANSFERS

In our view, the government is not accounting for all capital transfers it receives from other levels of government in accordance with PSAB standards. These capital grants are received from two sources. First, the province receives federal capital grants under a cost-sharing arrangement whereby the federal government contributes to the cost of construction of provincial highways. PSAB accounting standards require transfers under such cost-sharing agreements to be recognized as revenue when the recipient of the grant incurs the expenditures that make it eligible for the grant. As at March 31, 2008, the province had received significant amounts, accumulated over several years, that should have been recognized as revenue, as the government had incurred the construction expenditures making it eligible for the grants. Instead, the recognition of the revenues has been deferred with the intention of recording these revenues over the useful lives of the related assets.

Similarly, the province, through the Greater Toronto Transit Authority (GTTA), an Ontario government agency whose activities are consolidated with those of the province in the government's consolidated financial statements, receives capital transfers from both the federal and municipal governments for public transit infrastructure-capital-related projects. PSAB accounting standards require such transfers to be recognized as revenue in a government's financial statements as the resources provided are used for the purposes specified. As at March 31, 2008, the GTTA had received significant amounts, again accumulated over several years, that had been spent on public transit infrastructure-capital-related projects and accordingly should have been recorded as revenue, but the recognition of these revenues has also been deferred.

We recognize that the accounting used by the Ministry of Finance is consistent with its stated accounting policy for tangible capital assets. However, we believe, and have expressed this belief to the Ministry for several years, that this policy is inconsistent with PSAB standards. Accordingly, the accumulation of these deferred balances has been of increasing concern to our Office. The annual impact of this non-compliance on the province's annual surplus/deficit, while not yet material to their overall fair presentation, is also of concern, especially given the new *Investment in Ontario Act* and its provisions calling for payments to transfer-payment recipients to be based on the preliminary surplus as recorded in the province's consolidated financial statements.

The Ministry of Finance believes that a different interpretation of PSAB standards is possible. It further believes that a better matching of costs to revenues is achieved if such capital grants are brought into revenue to offset the annual amortization expense of the related capital assets. We acknowledge that the Ministry's position has some theoretical merit and has been adopted by several other Canadian jurisdictions, but we do not agree that it is in accordance with PSAB accounting standards. As well, we question whether it is consistent with the CICA's conceptual framework and the movement in the profession both internationally and in Canada to eliminate deferred charges and liabilities and allow only assets and liabilities that meet strict definitional tests to be recorded on an entity's statement of financial position.

A PSAB task force has been revisiting this issue as part of a project aimed at revising its standards for government transfers. In fact, the re-exposure draft issued by this task force included recommendations that could permit a recipient government to defer capital transfers and recognize them over the period specified by the transferring government as the assets acquired are used to provide services to the public. However, this amortization option would require that funding agreements between the two governments contain specific stipulations as to use of the assets, but these are not set out in the existing agreements, and government officials have indicated that they would not support their inclusion in future agreements. It is unlikely, therefore, that this option, even if adopted by PSAB, would be applicable to Ontario's situation.

We expect PSAB to finalize its position on government transfers in late 2008 or early 2009. If the position taken by the Ministry is not supported by PSAB, we strongly recommend that the Ministry revise its current accounting policy relating to capital transfers for the 2008/09 fiscal year.

MINISTRY RESPONSE

The province's accounting treatment for capital transfers is consistent with the accounting practices of many other governments in Canada, including Quebec, British Columbia, the Northwest Territories, Nunavut, Prince Edward Island, and New Brunswick. Senior governments in Canada, through the Joint Working Group, strongly support the accounting practice for capital transfers currently followed by Ontario.

It is the position of the Ministry of Finance that the accounting treatment currently being followed by the province for capital transfers is appropriate, consistent with the practices of other governments in Canada, and in accordance with generally accepted accounting principles.

RATE-REGULATED ASSETS AND LIABILITIES

Rate regulation refers to an arrangement whereby a government-established regulatory authority approves the prices that a regulated entity can charge its customers for its products or services. Regulators often prohibit regulated entities from immediately recovering all of their current costs in their current rates, ordering rather that such costs be "deferred" (and recorded as an asset) for recovery from customers in future periods. Rate-regulated accounting practices were developed to recognize the unique nature of regulated entities and these types of transactions.

Rate-regulated accounting is used extensively in Ontario's electricity sector and has accordingly found its way into the accounts of the Ontario government, because the government owns and controls Ontario Power Generation Inc. and Hydro One Inc. Under PSAB accounting standards, government business enterprises like these are consolidated into the government's statements via the modified equity method of accounting, which requires that the assets and liabilities of the enterprise be included in the government's consolidated financial statements without making any adjustments to conform its accounting policies to those of the government.

However, commencing in the 2005/06 fiscal year, the government began including rate-regulated assets and liabilities of the Ontario Power Authority (OPA), a government organization, in its consolidated financial statements. In contrast to its standards for government business enterprises, PSAB requires that the accounting policies of government organizations such as the OPA be harmonized with those of the government itself upon consolidation. Accordingly, prior to 2005/06, regulatory assets and liabilities of government organizations were written off as part of the consolidation process.

We question whether this expansion of the government's use of rate-regulated accounting is in accordance with PSAB standards. PSAB's revenue-recognition principles are based on the concept that revenues are to be recorded in the period they are earned. This means that anticipated future revenues cannot be recognized. This contrasts with rate-regulated accounting whereby expected future revenues can be used to offset current costs as if they have already been earned, under the theory that the monopoly powers of the regulated entity provide assurance that such costs can be recovered from future rates. The position of the Ministry of Finance is that this provides sufficient certainty for these assets and liabilities to be recognized under PSAB's asset and liability definitions without reference to the rate-regulation provisions found in the CICA Handbook. We do not agree with this position.

The government clearly has monopoly powers over many aspects of the provincial economy, but PSAB does not make allowance for any recognition of future revenues in any of these other spheres of activity. For example, PSAB does not allow governments to record as an asset or defer costs relating to the collection of any future tax revenues, future liquor profits, or future lottery or casino profits, even though future profits in these sectors may be just as "assured" as those in the electricity sector. The legacy of Ontario's electricity industry also does not instill confidence that it is the one government sector for which such accounting is appropriate—the former Ontario Hydro, which had a mandate to fully recover its costs of producing and distributing electricity, used rate-regulated accounting extensively and left a $19.4 billion legacy of stranded debt when it was disbanded in 1999. This stranded debt was recognized as an Ontario government liability for the first time in the province's March 31, 2000, consolidated financial statements. The government argued at that time that this stranded debt should simply be considered another rate-regulated asset that should be set up as a deferred-charge asset on the province's statement of financial position because, once again, its recovery was fully assured under the new electricity regime. After much debate, this position was rejected, and the province's accumulated deficit that year increased by the largest single amount in Ontario's history. Eight years later, most of this stranded debt remains on Ontario's books.

As is further discussed in the next section, we are uncomfortable with the inclusion of any rate-regulated assets and liabilities in the province's consolidated financial statements, but, as PSAB specifically allows government business enterprises to be consolidated without adjustment of their accounting policies, we have accepted their inclusion. However, we are not in agreement with the government's accounting practice that essentially allows the recognition of all rate-regulated assets or liabilities, whether they are in government business enterprises or not, as we do not believe they meet the definition of bona fide assets or liabilities under generally accepted accounting principles. While the amounts are not significant enough to be material to the province's financial results, they could be in future years, and accordingly we urge the province to reconsider its position on this issue.

Should Rate-regulated Assets and Liabilities Be Recorded in the Accounts of the Province?

Rate-regulated accounting has a long history, and it may well have merit at the rate-regulated entity level of accounting. We hold no position on standards that apply at that level. Rather, our concern is with the government's consolidated financial statements. PSAB has never issued an accounting standard on rate-regulated accounting. A task force established by the CICA a number of years ago to study the continued relevance of "specialized" accounting for rate-regulated entities was unable to reach a consensus in its deliberations, and its work was discontinued before a standard could be developed from its findings. The group did publish a research study, but it expressed both a majority viewpoint and a dissenting viewpoint, a rare occurrence in CICA literature. The dissenter questioned the appropriateness of rate-regulated accounting for public-sector entities because of the lack of independence of the regulator from the organization being regulated and from the government. In our view, if independence of the regulator is a concern at the level of the regulated entity's financial statements, it is even more so when considered at the level of the government's own consolidated financial statements.

The government of Ontario has established and controls the electricity sector's rate regulator, the Ontario Energy Board, and the major electricity sector entities that are subject to regulation by it. These controlled entities are all instruments of the Ontario government's energy policy. From the perspective of the government as a whole, we would argue that accounting transactions resulting from rate-regulation decisions should be considered as simply inter-company transactions—that is, transactions between entities inside the government reporting entity. In the case of the establishment of a regulatory asset, a government-controlled regulator is ordering a government-controlled regulated entity not to pass on certain current costs to electricity consumers but rather to recover these costs in future years. In the case of a regulatory liability, the regulator is ordering the regulated entity to return to its customers in future years the "excess" revenues it has received over the costs it has incurred. It does so by ordering the deferral of what in the absence of rate-regulated accounting and under "normal" GAAP would either be a current expense or a current revenue transaction. From the perspective of the government's consolidated financial statements, it seems questionable that these regulatory deferrals should be considered bona fide arm's-length transactions that generate legitimate gains or losses to the province, when no transaction has as yet occurred outside the government with any third party.

On the basis of the above analysis, our view is that rate-regulated balances should be removed upon consolidation like all other inter-organizational gains and losses that, under PSAB standards, must be removed upon consolidation to arrive at a presentation of the government's transactions with third parties. From this perspective, removal of rate-regulated balances would appear appropriate whether those assets or liabilities are reported in a government business enterprise's financial statement or in that of a government organization.

Ministry of Finance officials contend that rate-regulated assets and liabilities meet PSAB's standards without reference to any of the rate-regulated provisions in the CICA Handbook. We do not agree with this position. For example, PSAB 1000.36 sets out the three essential characteristics of a government asset:

- it embodies a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
- the government can control access to the benefits; and
- the transaction or event giving rise to the government's control of the benefit has already occurred.

In our view, rate-regulated assets are suspect under the second characteristic and fail to meet the test of the third characteristic.

With regard to the second characteristic, we simply point again to the legacy of the former Ontario Hydro and its stranded debt. This in our view provides concrete evidence that even in monopoly situations governments do not have sufficient assurance that an enterprise will generate enough profits in future years to recover all of its past costs. With regard to the third characteristic, we do not believe that a rate-regulation decision can be considered a transaction or event giving rise to an asset or obligation because, as stated above, from the level of the government's consolidated financial statements such a decision is an internal event between two government-controlled entities. An equivalent analysis for rate-regulated liabilities leads to the same conclusion. PSAB standards preclude the inclusion of both gains and losses from such inter-company transactions. Therefore, our contention is that, at the consolidated financial statement level, rate-regulated assets and liabilities have no place and should be removed upon consolidation of the government's controlled entities.

We further believe that the Ministry of Finance should reconsider its support for rate-regulated accounting for another reason. As discussed previously, the CICA is adopting international accounting standards as part of its strategic move to harmonize Canada's accounting practices with those found around the world. These new international standards do not contain provisions supporting rate-regulated accounting, and the CICA's Accounting Standards Board has indicated that it does not intend to amend these standards to make any provision for it. Rather, all assets and liabilities will have to meet the CICA's conceptual framework definitions to be included in financial statements in future. These definitions are essentially equivalent to the definitions already found in the PSAB Handbook discussed above.

Because of the government's expanded use of rate-regulated accounting, we have suggested to PSAB that it consider a review of this practice and consider issuing guidance on rate-regulated accounting for governments.

MINISTRY RESPONSE

These balances result from the rulings of the Ontario Energy Board related to the Regulated Price Plan (RPP) and represent amounts to be recovered from, or refunded to, retail electricity customers under the RPP in accordance with the *Electricity Act, 1998*. The province's accounting is consistent with the legislation and rulings of the Ontario Energy Board. Under Canadian generally accepted accounting principles for commercial organizations, accounting for rate-regulated balances as assets and liabilities is the commonly accepted practice. In the absence of PSAB providing guidance in this area, these commercial standards and other authoritative resources are referenced for determining appropriate generally accepted accounting principles. Ontario Power Authority's external auditor has issued a clean audit opinion, concurring that these balances are valid rate-regulated assets and liabilities.

It is the position of the Ministry of Finance that these rate-regulated balances should be reported as assets and liabilities in the province's consolidated financial statements as it better reflects the underlying economic substance of these transactions in accordance with generally accepted accounting principles.

Asset-backed Commercial Paper

As at March 31, 2008, the province had liquid reserves comprising cash and temporary investments totalling approximately $8.1 billion. The province also holds asset-backed commercial paper (ABCP) with an original cost of $636.9 million.

Commercial paper consists of short-term promissory notes with a fixed maturity date, usually less than a year, issued by a financial institution or large corporation. While commercial paper is normally secured only by the reputation of the issuer, ABCP is commercial paper that is backed by other assets such as mortgage or car loans, derivatives, or other assets pooled in conduits or trusts.

In Canada, a number of ABCP trusts have been established by banks and other financial institutions. ABCP issued by trusts established by the banks is referred to as bank-sponsored ABCP, while ABCP issued by trusts established by non-bank financial institutions is referred to as non-bank-sponsored ABCP. As of June 2007, the market value of Canadian bank-sponsored ABCP was approximately $80 billion and the market value of non-bank-sponsored ABCP was approximately $35 billion.

The assets in the trusts underlying the ABCP typically have a longer maturity than the commercial paper itself. Therefore, ABCP trusts raise funds by issuing new ABCP as the earlier issues fall due. As well, most of these ABCP trusts have fallback liquidity agreements whereby one or more liquidity provider, such as Canadian and international banks and other financial institutions, would lend them cash to ensure that the trusts could make appropriate payments to investors as the commercial paper fell due if there was a "market disruption" and new ABCP could not be issued.

In spring and summer 2007, many investors in Canadian ABCP became concerned with the quality of the assets underlying this commercial paper. Some of the underlying assets included United States residential mortgages, and this sector was undergoing significant financial difficulty. By August 2007, a number of non-bank-sponsored trusts were unable to find investors to purchase new commercial paper to fund maturing commercial paper, as investors were no longer willing to buy the new issues because of concerns about the underlying assets. In response, the majority of these non-bank-sponsored trusts called upon their liquidity providers for support. However, in many cases these liquidity providers did not provide the funds requested, as, according to the terms of the liquidity agreements, support had to be provided only in times of general "market disruption," and these providers contended that no such disruption had occurred. As a result, investors in ABCP, including the province of Ontario, were unable to recoup their investments in non-bank-sponsored ABCP.

To deal with this illiquidity, a number of investors and other market participants formed a pan-Canadian investors' committee in September 2007 to develop a plan to restructure the ABCP debt issued by non-bank-sponsored trusts. The restructuring plan essentially called for investors holding this ABCP to exchange their holdings for long-term notes with maturities matching those of the underlying assets.

The restructuring plan was approved by the majority of investors on April 25, 2008, and sanctioned by the Ontario Superior Court of Justice on June 5, 2008. Some investors who did not support the plan appealed this decision to the Supreme Court of Canada on September 20, 2008, but the Supreme Court of Canada upheld the Ontario Superior Court of Justice ruling. Accordingly, investors, including the province, will be able to convert their existing ABCP into long-term notes.

At the time we finalized our audit of the province's March 31, 2008, consolidated financial statements, the above appeal process was outstanding. Under PSAB accounting standards, the province is required to reduce the book value of its investments by any impairment in value that is deemed to be "other than temporary." Accordingly, the government conducted a valuation exercise that assessed both the likelihood of success of the restructuring and the attributes of each class of notes the province would hold under the restructuring plan. On the basis of this work, the government's best estimate of the net recoverable value of its ABCP investments was $530.1 million as at March 31, 2008. Accordingly, a valuation adjustment of approximately $1[illegible]6.8 million was recognized as an expense for the [illegible]07/08 fiscal year.

Owing to the complexity of valuing ABCP, we contracted the services of a major chartered accounting firm that had already assisted two other provincial jurisdictions in their assessments of their ABCP holdings. The firm reported to us that the province's valuation methodology seemed appropriate and consistent with the CICA's guidance on ABCP valuations. On the basis of this and our own work, we concluded that the province's valuation process and the resulting adjustment were reasonable.

The *Financial Administration Act, 1990* sets out the types of investments the province may invest in, and these provisions allow the province to invest in commercial paper. The government has also established a number of investment policies that, for example, set out dollar limits on the amounts that may be invested in particular instruments. While its ABCP investments were within those limits at the time they were made, the government's experience with ABCP has led to changes in its investment policies. For example, commercial paper issuers must now be rated by at least two credit rating agencies before the province can consider investing in their offerings. This is a noteworthy change in policy, as at the time the province purchased its ABCP, there was only one credit rating firm that rated the Canadian ABCP market. Although this rating agency had given its highest rating to non-bank-sponsored ABCP, major international credit rating firms were unwilling to provide a rating. For example, in June 2006, one of these firms publicly stated that "conduits with this type of liquidity backup likely would not receive an investment-grade rating" from the firm. The province has also revised certain other policies to provide for additional oversight of liquid reserves in an effort to identify and address any potential liquidity problems at an early stage.

Accounting for Alternative Financing and Procurement Projects

An Alternative Financing and Procurement (AFP) project can be described as an arrangement between public-sector and private-sector entities to design, construct, acquire, or manage a public-sector asset such as a highway, a hospital, or a jail. The use of AFP arrangements has been growing in recent years as governments seek new ways to finance and manage large-scale infrastructure projects. AFPs can take many different forms and can vary significantly in the degree of private-sector involvement in the project and the extent to which the economic risks and benefits of the project are shared between the partners. The province of Ontario is actively engaged in a number of AFP projects.

Infrastructure Ontario, the provincial government agency responsible for delivering public infrastructure projects for the province, has a mandate to look for private-sector financing to rebuild public infrastructure, while ensuring public ownership and control over these assets. Infrastructure Ontario also provides Ontario municipalities and universities with loans to build and renew their own infrastructure.

Infrastructure Ontario is currently overseeing more than 40 AFP projects, with work on more than two dozen projects underway that will cost an estimated $7.5 billion. The majority of these are hospital projects.

Accounting for these various AFPs can be complex. We are interested in this accounting because the financial results of hospitals are consolidated in the province's financial statements. At present, there is little guidance available either from the CICA or internationally on how these arrangements are to be accounted for. We have noted that the International Public Sector Accounting Standards Board issued a paper focusing on the accounting and financial reporting issues related to what it defined as a "Service Concession Arrangement," which has many of the attributes of the province's AFP arrangements. The consultation paper discusses how to determine whether a public-sector entity should report the underlying property as an asset in its financial statements and the circumstances involved in making that determination.

Given that AFP arrangements are complex and may take myriad forms, we believe that the Ministry of Finance, in the absence of specific guidance in Canadian accounting standards, should provide direction to the public-sector entities in Ontario that are undertaking these AFP projects on how they should be accounting for them. This would contribute to ensuring that AFP projects are being accounted for consistently throughout the province. We understand that the Ministry has been providing informal guidance and is in the process of finalizing an AFP accounting policy.

Status of Certain Issues Raised in Prior Years

ACCOUNTABILITY RELATING TO YEAR-END SPENDING

In my annual reports of prior years and in last year's *2007 Pre-Election Report on Ontario's Finances* and review of the Ministry of Citizenship and Immigration's year-end grants, I expressed concerns regarding the government's loosening of the normal accountability controls over year-end spending.

In those reports, I noted that while nearly all of the transfer payments I examined were made to recipients with which the province had long-standing relationships, such as municipalities, in the majority of cases normal accountability and control provisions were weakened or eliminated to ensure that the transfers qualified for immediate expense recognition prior to the March 31 fiscal year-end.

As a result of my concerns in this area, I wrote to the Deputy Minister of Finance in August 2007 recommending that the government's approach to its year-end investments be reassessed. Specifically, I indicated that I believed it possible for the government to set out certain conditions and accountability provisions for year-end transfers and still meet the accounting criteria for immediate expense recognition of these transfers.

Over the fall of 2007, we worked with the Ministry of Finance on this issue and were able to come to an agreement as to the types of accountability and control provisions that could be included in year-end transfers without compromising their immediate expense recognition. These provisions were incorporated into this year's year-end reinvestment process. I believe that the Ministry of Finance's new approach has improved the government's accountability for its year-end transfers.

REPORTING HEALTH TRANSFER PAYMENT EXPENDITURES IN THE 2007/08 ESTIMATES

Local Health Integration Networks (LHINs) are statutory not-for-profit corporations and Crown agencies under the *Local Health System Integration Act, 2006* (Act). There are 14 LHINs across the province responsible for planning, integrating, and funding local health services within their geographic areas. Additional LHIN responsibilities and performance expectations are set out in memoranda of understanding and accountability agreements that they enter into with the Ministry of Health and Long-Term Care.

In last year's Annual Report, I raised a concern based on my understanding that, beginning in the 2007/08 fiscal year, the government expenditure estimates setting out the details of the government's operating and capital plans for the year would report as expenditures only the amounts transferred to each of the LHINs, and would no longer provide details of these expenditures. I was concerned about the potential loss of information as to how much of the approximately $19 billion in public-health-care money provided through the LHINs was being allocated to each of the major health-care sectors, such as to public hospitals, Community Care Access Centres, long-term-care facilities, mental-health or addiction agencies, and other health-care and community support organizations.

At that time, the government indicated that since the respective LHINs were responsible for deciding how best to allocate the funds provided to them, the general funding envelope provided to the LHINs best reflected this flexibility. Accordingly, as an alternative, we recommended that at year-end, once the actual allocations had been made and were known, the financial reporting should disclose LHIN expenditures by these individual health-care components.

I was pleased to note that in Volume 1 of the 2007/08 Public Accounts, the Ministry of Health and Long-Term Care expenditures provided the level of detail we had suggested by reporting, by major health-care sector, how each LHIN allocated the government funds it had received.

The Government Reporting Entity

SCHOOL BOARD SECTOR—USE OF SPECIFIC REVIEW PROCEDURES

I noted in last year's Annual Report that consolidating Ontario's school boards sector into the province's consolidated financial statements presented two unique challenges. First, school boards have a fiscal year-end of August 31, which does not coincide with the province's March 31 fiscal year-end. As well, school boards do not yet record the value of their tangible capital assets in their financial statements. To address both of these issues, the government annually requests school boards to submit financial information for the same fiscal period as the province, and to provide sufficient information on their capital expenditures and assets to allow the government to include school board capital transactions and balances in the province's consolidated financial statements. The auditors of each school board perform specific review procedures on this additional submitted information, and we rely upon these procedures in conducting our audit. We have encouraged the continued use of these additional review procedures, as they provide a timely and cost-effective method of obtaining assurance on amounts reported by the school boards for which there is no alternative source of information. I would like to acknowledge that the Ministry of Education has indicated that it will continue to require school boards to have their auditors undertake these additional review procedures that we support.

FULL LINE-BY-LINE CONSOLIDATION OF THE BROADER PUBLIC SECTOR

Under PSAB's new reporting entity standard, governments are permitted to consolidate broader-public-sector (BPS) organizations on a modified equity basis of accounting until the 2008/09 fiscal year. Under modified equity accounting, BPS organization net assets are included as a single line on the province's Consolidated Statement of Financial Position, and each sector's annual surplus or deficit is included as a single line on the province's Consolidated Statement of Operations.

For all fiscal years that commence on or after April 1, 2008, PSAB will require BPS organizations to be fully consolidated. Full consolidation requires the accounts of BPS organizations to be included using the same accounting policies as the province, and each revenue and expense item, as well as each asset and liability item, to be combined with the corresponding item in the province's consolidated financial statements. One key consequence of this line-by-line approach would be that the $29.7 billion in BPS tangible capital assets and $12.6 billion in net debt would then be included in and reported as being part of the province's capital assets and net debt, respectively.

The Ministry of Finance does not support line-by-line consolidation, and holds the view that equity accounting with a "one-line" approach to consolidation better reflects both the overall financial impact of the BPS on the province's financial statements and the greater autonomy that BPS organizations have than the other organizations that the province controls and fully consolidates. The Ministry has indicated that it is consulting with PSAB on this matter.

We are currently working with the Ministry of Finance on what additional information would be required to make line-by-line consolidation possible, how conformity with the province's accounting policies can be ensured, how a number of presentation and disclosure issues associated with this change should be dealt with, and what the impact on the consolidated financial statements would be if full consolidation is not adopted.

Accounting for Capital Assets

GOVERNMENT CAPITAL ASSETS

In January 2003, PSAB revised a 1997 standard setting out rules for the recognition, measurement, amortization, and presentation of capital assets in a government's financial statements. The standard recommends that governments, in a manner similar to the approach taken in the private sector, record acquired or constructed capital items as assets and amortize their cost to operations over their estimated useful lives.

The government's approach, which we supported, was to phase in these PSAB recommendations over time. In the 2002/03 fiscal year, it valued and capitalized the province's land holdings, buildings, and transportation infrastructure and accordingly recognized, for the first time, over $13 billion of its net capital investments in its financial statements. By 2007/08, the province's net investments in these capital assets had grown to $19 billion.

The government has advised us that it intends to complete the capitalization project for its remaining tangible capital assets, such as its computer systems, vehicles, and equipment, for the 2009/10 fiscal year. We have held a number of meetings over the past year with Ministry of Finance officials on this issue to address the scope of this project and the methodologies that will be used with respect to the valuation of these assets.

PSAB Initiatives

This section briefly outlines some of the more significant issues that PSAB has been dealing with over the last year that may affect the province's consolidated financial statements in future years.

STANDARDS

Financial Instruments

The province uses financial instruments or derivatives such as foreign-exchange forward contracts, swaps, futures, or options primarily to manage (or "hedge against") risks related to debt it has issued in foreign currencies and/or at variable interest rates. Currently, PSAB guidance on accounting for derivatives is limited to their application in hedging foreign-currency items, such as managing the foreign-currency risk associated with holding a debt repayable in U.S. dollars. Governments, including the Ontario government, also use derivative financial instruments to manage interest-rate risk. For instance, the province may issue debt at a variable interest rate and, through the subsequent use of derivative financial instruments, effectively convert this variable-interest-rate debt into fixed-interest-rate debt, thereby limiting the province's exposure to future interest rate fluctuations.

In January 2005, the CICA Accounting Standards Board approved three new Handbook sections relating to such activities: "Financial Instruments," "Comprehensive Income," and "Hedges." Although these Handbook sections were written for use by the private sector, and governments were not required to apply these sections, they underscored the need to address these issues from a public-sector perspective.

Accordingly, PSAB created a task force to consider how governments should account for financial instruments. The main issue to be addressed is whether changes in the fair market value of derivative contracts (like equities and bonds, their fair market value fluctuates) should be recognized in an organization's financial statements. Secondly, if such changes are to be recognized, should they affect the determination of the annual surplus or deficit?

The main argument for recognizing changes in the fair market value of financial instruments is to ensure that all assets and liabilities of an organization are recognized at their current value rather than historical value at the end of each fiscal period. However, such changes could have a significant impact on the organization's annual surplus or deficit, even though any unrealized losses could well be recovered in future years and any unrealized gains could well be wiped out by offsetting changes in the market value of these instruments. Accordingly, this treatment increases the potential for volatility in an entity's statement of operations.

The task force developed a statement of principles on financial instruments that was issued in June 2007, setting out suggested principles for the recognition and measurement of financial instruments, including derivatives and hedges, in a government's financial statements. PSAB received a number of responses from governments and others to this statement of principles and has been reviewing them.

A key issue that PSAB is attempting to address is whether derivatives should be measured at fair value consistent with the direction provided in the

CICA private-sector standard. PSAB also recognizes that these revaluations increase the potential for volatility in reported annual results. Accordingly, it is considering provisions that would allow for the annual surplus or deficit impact of such revaluations to be offset in some cases by recognizing the fair-value impact of transactions entered into to hedge against such risks, and in other cases by recording the fair-value impact directly to the accumulated deficit rather than through the annual operating statement.

PSAB expects to release an exposure draft on these matters in March 2009.

FOREIGN-CURRENCY TRANSLATION

At present, PSAB accounting standards include recommendations allowing gains and losses on foreign-currency-denominated items to be deferred and amortized to operations over time. However, PSAB has indicated that as part of its plan to address financial instruments it will need to revisit these recommendations. Specifically, it is expected that the current deferral provisions will be replaced with the requirement that such gains and losses be immediately recognized in the determination of the annual surplus or deficit. These changes are expected to be included in an exposure draft to be released at the same time as the exposure draft on financial instruments, in March 2009.

GOVERNMENT TRANSFERS

PSAB is working on amending its standard on government transfers to address a number of issues raised by the government community with regard to application and interpretation. The major issues that need to be addressed include the following: the need to resolve an ongoing debate over the appropriate accounting for multi-year funding provided by governments; clarification of the nature and extent of the authorization needed for transfers to be recognized as an expense; clarification of the degree to which stipulations imposed by a transferring government should affect the timing of expense recognition by the transferor or revenue recognition by the recipient government; and the appropriate accounting for capital transfers received. Given the billions of dollars in government transfers made annually, the revised standard has the potential to significantly affect a government's financial results.

A variety of views have been expressed on these issues, and PSAB has faced challenges in obtaining a consensus on the revisions to be made to the existing standard. One of the key challenges is PSAB's desire for any revised standard to be consistent with CICA's conceptual framework, which focuses on assets and liabilities, unlike a government's key fiscal focus, which is on the annual surplus or deficit.

PSAB issued an exposure draft for comment in June 2006 that called for the immediate recognition as an expense (for the transferor) and revenue (for the recipient) of all transfers, provided the transfer had been authorized and any eligibility criteria had been met by the recipient. After reviewing comments received on this exposure draft, PSAB issued a re-exposure draft in April 2007 proposing certain changes whereby under certain conditions a recipient government could defer recognition of a transfer it had received. PSAB is reviewing the comments received on this draft, and has indicated that it intends to issue a second re-exposure draft in late 2008.

ENVIRONMENTAL LIABILITIES

Canadian accounting standards do not specifically address environmental liabilities. In recognition of the need to do so, PSAB approved a project to develop accounting standards specific to environmental liabilities. It is expected that a statement of principles on this issue will be released in the near future.

In the absence of an accounting standard, the governments of Ontario and most other Canadian jurisdictions have not developed any accounting policies specifically addressing environmental liabilities. However, the Ontario government's practice is to record environmental liabilities when it determines that it has little or no discretion to avoid future costs or payments resulting from its environmental responsibilities, and when the amounts of these liabilities can be reasonably estimated.

Guidance

PSAB issues Statements of Recommended Practices (SORPs) for reporting supplementary information beyond that presented in the financial statements. SORPs do not form part of PSAB accounting standards and are designed to provide general guidance to a government that chooses to provide this supplementary information.

ASSESSMENT OF TANGIBLE CAPITAL ASSETS

PSAB is developing a statement of recommended practice to assist governments in reporting on major government assets and to improve the comparability and reliability of financial and non-financial information about such assets. These improvements would assist governments in evaluating their financial condition and their financial and non-financial performance.

Existing guidance on reporting financial and other information about tangible capital assets is limited. Appropriate information about the use and condition of a government's tangible capital asset infrastructure assists users in understanding the ongoing maintenance, renewal, and replacement costs associated with this infrastructure. It is therefore a major factor in determining a government's financial ability to maintain existing levels of services.

PSAB approved a statement of principles for this project in March 2007 and a draft statement of recommended practice in March 2008. PSAB expects the final statement of recommended practice to be approved in late 2008.

INDICATORS OF GOVERNMENT FINANCIAL CONDITION

Governments are complex organizations, and it is important that they provide clear information to citizens about what they plan to achieve and what they have achieved with the resources entrusted to them. Performance reporting is one means of providing this information.

In June 2006, PSAB completed its first project on performance indicators and approved *Public Performance Reporting*, a statement of recommended practice that promotes consistency and comparability in reporting outside of a government's financial statements. It sets out recommended practices for reporting performance information in a public-performance report, addresses non-financial performance information and its linkage to financial performance information, and encourages governments to provide information about governance practices.

The main objective of reporting on a government's financial condition is to provide an expanded discussion of the information contained in government financial statements that is not limited to financial position and changes in financial position, but also examines the context of the government's overall economic and fiscal environment. Governments may choose to provide this information in special reports or in the annual report that accompanies the government financial statements. In September 2008, PSAB issued a draft Statement of Recommended Practice regarding indicators of government financial condition, and plans to produce a final statement of recommended practice in the near future.

Internal Audit Financial Assurance Program

The Ministry of Finance is funding the implementation of a new Financial Assurance Program whereby the government's internal audit division will assess the internal control procedures relating to the government's financial management processes for operating and capital expenditures, revenues, and asset/liability management. As the financial information produced by these processes are used to prepare the financial statements of ministries (Volume 1) and the province's consolidated financial statements, our Office welcomes this initiative.

Other Matter

Under section 12 of the *Auditor General Act*, I am required to report on any special warrants and Treasury Board orders issued during the year. In addition, section 91 of the Legislative Assembly Act requires that I report on any transfers of money between items within the same vote in the estimates of the Office of the Legislative Assembly.

LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

Shortly after presenting its Budget, the government tables in the Legislature detailed Expenditure Estimates outlining, on a program-by-program basis, each ministry's spending proposals. The Standing Committee on Estimates (Committee) reviews selected ministry estimates and presents a report on them to the Legislature. The estimates of those ministries that are not selected for review are deemed to be passed by the Committee and are so reported to the Legislature. Orders for Concurrence for each of the estimates reported on by the Committee are debated in the Legislature for a maximum of two hours and then voted on.

Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving a *Supply Act*, which stipulates the amounts that can be spent by ministry programs, typically those set out in the estimates. Once the *Supply Act* is approved, the individual program expenditures are considered to be Voted Appropriations. The Supply Act pertaining to the fiscal year ended March 31, 2008, received Royal Assent on March 31, 2008.

The *Supply Act* is typically not passed until after the start of the fiscal year, but ministry programs require interim funding approval prior to its passage. The Legislature authorizes these payments by means of motions for interim supply. For the fiscal year ending March 31, 2008, the time periods covered by the motions for interim supply and the dates that the motions were agreed to by the Legislature were as follows:

- April 1, 2007, to June 30, 2007—passed December 4, 2006; and
- February 1, 2008, to March 31, 2008—passed December 6, 2007.

Interim Appropriation Act, 2007

This year, for the first time, the government also passed an act allowing interim appropriations. As a result of the October 2007 provincial election, the Legislature was dissolved on September 10, 2007, before it had passed the *Supply Act*. The *Interim Appropriation Act, 2007* (Act) ensured that during the period before and after the general election, the existing government had sufficient legal spending authority until the new government was formed. The Act allowed the government to incur up to $50 billion in public service expenditures, $1.2 billion in investments in capital assets, and $170 million in legislative office expenditures.

An interim supply motion passed on December 4, 2006, provided the government with temporary approval to incur expenditures from April 1, 2007, until the Act received Royal Assent on May 17, 2007. The Act was made effective as of April 1, 2007, and replaced the interim supply motion.

A second interim supply motion passed on December 6, 2007, provided the government with temporary approval to incur expenditures from February 1, 2008 (when spending authority under the Act and the special warrant discussed below was expected to become insufficient) until the enactment of the *Supply Act, 2008*.

Since the legal spending authority under the Act was intended to be temporary, it was repealed under the *Supply Act, 2008*, and the authority to incur expenditures provided under the Act was subsumed in the authority provided under the *Supply Act, 2008*.

SPECIAL WARRANTS

If motions for interim supply cannot be approved because, for instance, the Legislature is not in session, section 7(1) of the *Treasury Board Act, 1991* allows for the issuance of special warrants authorizing the incurring of expenditures for which there is no appropriation by the Legislature or for which the appropriation is insufficient. Special warrants are authorized by Orders-in-Council approved by the Lieutenant Governor on the recommendation of the government.

For the fiscal year ended March 31, 2008, one special warrant totalling $24,624,839,200 was approved by an Order-in-Council dated October 25, 2007. This special warrant was required because the authority to incur expenditures provided under the *Interim Appropriation Act, 2007* was not sufficient to allow the government to continue operating after October 31, 2007. As a result, the special warrant allowed the government to incur expenditures from November 1, 2007, until the new Legislature began its first session.

TREASURY BOARD ORDERS

Subsection 8(1) of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing expenditures to supplement the amount of any voted appropriation that is expected to be insufficient to carry out the purpose for which it was made. The order may be made only if the amount of the increase is offset by a corresponding reduction of expenditures to be incurred from other voted appropriations not fully spent in the fiscal year. The order may be made at any time before the books of the government of Ontario for the fiscal year are closed.

Subsection 5(4) of the *Treasury Board Act, 1991* allows the Treasury Board to delegate to any member of the Executive Council or to any public servant employed under the *Public Service of Ontario Act, 2006* any power, duty, or function of the Board, subject to limitations and requirements that the Board may specify. In the fiscal year ended March 31, 2008, the Treasury Board delegated its authority for issuing Treasury Board orders to ministers for making transfers between programs within their ministry, and to the Chair of the Treasury Board for making transfers between programs in different ministries and making supplementary appropriations from contingency funds. Supplementary appropriations are Treasury Board orders whereby the amount of an appropriation is offset by reducing the amount available under the government's centrally controlled contingency fund.

Figure 1 summarizes the total value of Treasury Board orders issued for the past five fiscal years. Figure 2 summarizes Treasury Board orders for the fiscal year ended March 31, 2008, by month of issue. The last Treasury Board order for the fiscal year ended March 31, 2008, was issued on August 19, 2008.

According to the Standing Orders of the Legislative Assembly, Treasury Board orders are to

Figure 1: Total Value of Treasury Board Orders Issued, 2003/04–2007/08 ($ million)

Source of data: Treasury Board

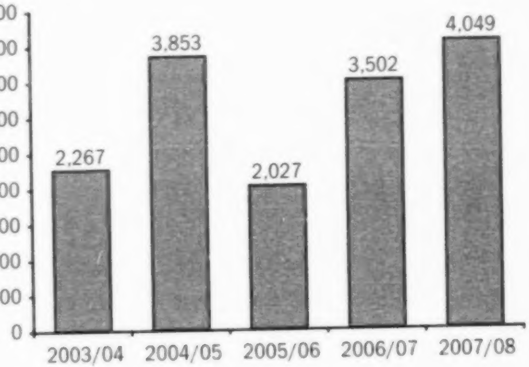


Figure 2: Treasury Board Orders by Month of Issue, 2007/08 ($)

Source of data: Treasury Board

Month of Issue	#	Authorized ($)
April 2007–February 2008	111	1,970,603,200
March 2008	62	1,915,890,300
April 2008	7	108,744,400
August 2008	3	53,760,100
Total	**183**	**4,048,998,000**

be printed in *The Ontario Gazette*, together with explanatory information. Orders issued for the 2007/08 fiscal year are expected to be published in *The Ontario Gazette* in December 2008. A detailed listing of 2007/08 Treasury Board orders, showing the amounts authorized and expended, is included as Exhibit 3 of this report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of money from one item of the estimates of the Office of the Assembly to another item within the same vote, section 91 of the *Legislative Assembly Act* requires that I make special mention of the transfer(s) in my Annual Report.

Accordingly, with respect to the 2007/08 estimates, the following transfers were made within Vote 201 and Vote 202, respectively:

From:	Item 3	Legislative Services	$ 1,400
To:	Item 2	Office of the Clerk	$ 1,400
From:	Item 3	Office of the Integrity Commissioner	$116,800
To:	Item 1	Environmental Commissioner	$ 27,300
	Item 4	Office of the Provincial Advocate for Children and Youth	$ 89,500

UNCOLLECTIBLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order-in-Council to delete from the accounts any amount due to the Crown that is deemed uncollectible. The amounts deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 2007/08 fiscal year, receivables of $200 million due to the Crown from individuals and non-government organizations were written off (in 2006/07, the comparable amount was $174 million). The major portion of the write-offs related to the following:

- $92.4 million for uncollectible retail sales tax (2006/07 – $53.7 million);
- $59.8 million for uncollectible corporate tax (2006/07 – $76.5 million);
- $10.4 million for uncollectible employer health tax (2006/07 – $9.5 million);
- $9.9 million for uncollectible receivables under the Student Support Program (2006/07 – $6.7 million);
- $7.3 million for uncollectible Criminal Code fines (2006/07 – $0.1 million);
- $5.6 million for uncollectible receivables under the Ontario Disability Support Program (2006/07 – $10.8 million); and
- $5.1 million for uncollectible receivables under the Motor Vehicle Accident Claims Fund (2006/07 – $6.3 million).

Volume 2 of the 2007/08 Public Accounts summarizes these write-offs by ministry. Under the accounting policies followed in the audited consolidated financial statements of the province, a provision for doubtful accounts is recorded against accounts receivable balances. Accordingly, most of the write-offs had already been previously provided for in the audited financial statements. However, the actual deletion from the accounts required Order-in-Council approval.

Chapter 3

Reports on Value-for-money Audits

Our value-for-money (VFM) audits are intended to examine how well government, organizations in the broader public sector, agencies of the Crown, and Crown-controlled corporations manage their programs and activities. These audits are conducted under subsection 12(2) of the *Auditor General Act*, which requires that the Office report on any cases observed where money was spent without due regard for economy and efficiency or where appropriate procedures were not in place to measure and report on the effectiveness of service delivery. This chapter contains the conclusions, observations, and recommendations for the value-for-money audits conducted in the past audit year, except for those previously published in a special report during the year.

The ministry programs and activities and the organizations in the broader public sector audited this year were selected by the Office's senior management on the basis of various criteria, such as a program's or organization's financial impact, its significance to the Legislative Assembly, related issues of public sensitivity and safety, and, in the case of ministry programs, the results of past audits and related follow-up work.

We plan, perform, and report on our value-for-money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. Accordingly, our audits include such tests and other procedures as we consider necessary in the circumstances, including obtaining advice from external experts when needed. Our testing generally focuses on activities and transactions conducted in the most recently completed fiscal year.

Before beginning an audit, our staff conduct in-depth research into the area to be audited and meet with auditee representatives to discuss the focus of the audit. During the audit, staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. At the conclusion of the audit fieldwork, which is normally completed by late spring of that audit year, a draft report is prepared, reviewed internally, and then discussed with the auditee. Senior Office staff meet with senior management from the auditee to discuss the draft report and to finalize the management responses to our recommendations. In the case of organizations in the broader public sector, discussions are also held with senior management of the funding ministry. All responses are then incorporated into the report in each of the VFM sections.

Chapter 3 Section 3.01

Ministry of Health and Long-Term Care

Addiction Programs

Background

At the time of our last audit in 1999, the Ontario Substance Abuse Bureau (Bureau), part of the Ministry of Health and Long-Term Care (Ministry), was funding addiction treatment services in Ontario, under the authority of the *Ministry of Health and Long-Term Care Act*. The Bureau's mandate included reducing or eliminating substance abuse and other addictive behaviours.

By the 2002/03 fiscal year, the Ministry of Health and Long-Term Care had transferred all operational aspects for direct services to seven regional offices across the province, and reassigned the Bureau's other responsibilities to the Ministry's Mental Health and Addiction Branch.

With the passage of the *Local Health System Integration Act, 2006*, the Ministry's seven regional offices were closed effective April 1, 2007. Their responsibilities and operational functions were delegated to 14 Local Health Integration Networks (LHINs) across the province. The role of these LHINs is to plan, fund, and co-ordinate services offered by hospitals, long-term-care homes, Community Care Access Centres, community support service providers, mental health and addiction service providers, psychiatric hospitals, and Community Health Centres. In addition, the Ministry reassigned its Mental Health and Addiction Program Branch responsibilities to other ministry branches.

The Ministry still retains ultimate accountability for the health-care system. It is responsible for ensuring that there are checks and balances that hold the LHINs accountable for the performance of their local health system and that people across Ontario have access to a consistent set of health-care services.

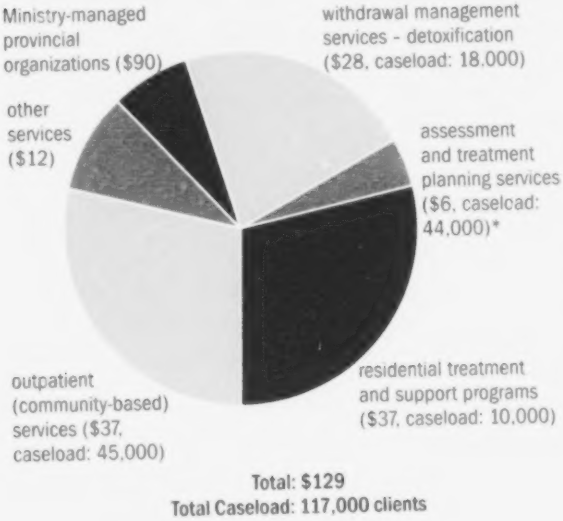
More than 150 addiction service providers across the province provide Ontario's addiction treatment services. Effective April 1, 2007, these providers' service agreements with the Ministry were assigned to their area's LHINs. As Figure 1 illustrates, for the fiscal year ended March 31, 2007, the Ministry provided $129 million in addiction transfer payments to combat substance abuse and problem gambling. Of this:

- addiction service providers received $120 million to treat an estimated caseload of 117,000; and
- Ministry-managed provincial organizations received $9 million to conduct specific studies or work for the sector on behalf of the province.

This $129 million represented a $31 million, or 32%, increase in funding from our last audit in 1998/99. Of this $31 million increase, substance-abuse funding received only $7 million, while problem gambling received a $24 million, or about 700%, increase.

Figure 1: Addiction Funding Expenditures, 2006/07 ($ million)

Source of data: Ministry of Health and Long-Term Care



* based on ministry standardized service definitions

Audit Objective and Scope

The objective of our audit was to assess whether the Ministry of Health and Long-Term Care, in partnership with the Local Health Integration Networks, had mechanisms in place to:

- meet the needs of people requiring addiction treatment services;
- monitor payments and services to ensure that appropriate legislation, agreements, and relevant policies were followed; and
- measure and report on the effectiveness of the province's addiction programs.

The scope of our audit included review and analysis of relevant files and administrative procedures, and interviews with appropriate staff of several different Ministry of Health and Long-Term Care branches, as well as the Ministry of Health Promotion and the Ministry of Public Infrastructure Renewal, regarding problem-gambling revenue. We visited three LHIN offices (Toronto Central, Central East, and North East), which accounted for about 40% of total LHIN expenditures, to review relevant documents and interview staff. At each of these three LHINs, we visited several addiction service providers to interview senior management staff and to review service-provider documentation.

We also conducted a telephone survey of a sample of service providers. We met with external groups such as Addictions Ontario, the Centre for Addiction and Mental Health, the Federation of Community Mental Health and Addictions, the Canadian Mental Health Association (Ontario Division and Toronto Division), Ontario Problem Gambling Research Centre, and ConnexOntario (which maintains a database on the availability of addiction treatment services). In addition, we reviewed relevant audit reports issued by the Ministry's Internal Audit Services. Wherever possible, we relied on their audit work to reduce the extent of our audit.

Our audit followed the professional standards of the Canadian Institute of Chartered Accountants for assessing value for money and compliance. We set an objective for what we wanted to achieve in the audit, and developed audit criteria that covered the key systems, policies, and procedures that should be in place and operating effectively. We discussed these criteria with senior management at the Ministry of Health and Long-Term Care. Finally, we designed and conducted tests and procedures to address our audit objective and criteria.

Summary

Ontario's addiction treatment services did not historically develop as part of a planned, integrated system. Rather, local agencies and programs grew over time to respond to local needs. In our 1999 audit, we noted that the Ministry of Health and Long-Term Care (Ministry) recognized that several key changes were needed to increase treatment capacity and effectiveness and reduce wait times.

Key amongst these was a more multi-faceted approach that included merging smaller treatment agencies into larger, more multi-functional agencies that would enhance the continuity of care and improve efficiency. For example, mergers and amalgamations could reduce administrative costs and duplication of services.

During our current audit, we noted that, while significant organizational changes occurred at the Ministry with the establishment of the LHINs, program delivery at the local community level has remained relatively unchanged. As a result, there is still significant work to be done to ensure that people with addictions are being identified and are receiving the services they need in a cost-effective manner. Also, the LHINs are relatively new to the field of addiction-treatment services and, at least in the short term, most LHINs will be challenged in effectively assuming the Ministry's responsibilities for overseeing local service providers. For instance:

- More than 90% of the population that the Ministry estimated as needing addiction treatment have not been identified as needing treatment, have not actively sought treatment, or the treatment services were not available. Some people with addictions may have received treatment from their family physicians, Alcoholics Anonymous, or other sources, which the Ministry did not track in its system.
- The majority of addiction service providers did not report wait times for some or all of their services, as required by their service agreements. For the service providers that did report, there were significant wait times as well as large variances between service providers. For example, youths seeking help for substance abuse could wait for their initial assessment for a period as brief as one day to as long as 210 days, with an average wait time of 26 days.
- Although one of the Ministry's objectives is for addiction treatment to be provided as close as possible to the client's home, the Ministry did not have information on how many Ontarians were seeking treatment in other Canadian provinces. It did have information on those who sought treatment out of country. Over the past four years—between and including 2004/05 and 2007/08—about 200 youths seeking help for their addiction problems were sent out of country for treatment at an average cost of about $40,000 each.
- While the demand for substance-abuse treatment services had increased over the past decade, with long service wait lists at many providers, service providers advised us they were forced to reduce their staff numbers and services, including closing beds, because funding had not kept pace with inflationary increases.
- Addiction funding was based on historical funding rather than assessed needs. The Ministry's recent analysis indicated that per capita funding across the 14 LHINs ranged from about $3 per capita to more than $40 per capita. This can result in clients with similar addiction needs receiving significantly different levels of service, depending on where in Ontario they live.
- We were satisfied that accountability mechanisms exist between the Ministry and the LHINs. However, the transfer to the LHINs of the responsibility for overseeing service providers has resulted in some loss of corporate knowledge about provider operations and a reduction in the oversight and monitoring of whether funded services are actually being delivered to people with addictions in an effective manner.
- We found wide variations in caseloads and costs among service providers for similar treatments that warranted follow-up by the Ministry and the LHINs. For example, the problem-gambling funding guideline suggested a caseload of 50 to 60 clients per year for each agency's first counsellor and 100 to 120 clients per year for each additional

counsellor. However, almost half of the service providers served fewer than 50 clients per year per counsellor. One service provider served only three clients per counsellor, at a cost of $26,000 per client for the year.

- The Ministry's information systems have the potential to provide management of the service providers, the LHINs, and the Ministry with excellent information for decision-making and monitoring. However, data in the Ministry's information systems was found to be incomplete and inaccurate.

OVERALL MINISTRY RESPONSE

Over the past 10 years, the Ministry has been in the process of reforming the addiction-treatment system by leveraging new and existing resources.

The Ministry funded an Early Childhood Development Addiction Treatment program for pregnant women after becoming the only province to receive funding from the federal government for this purpose. Over five years, this initiative increased the addiction-treatment-system capacity to provide services to these women and improved their health outcomes.

The Ministry, through one-time initiatives, supported the development of standards for women-specific agencies and for youth-specific programs.

The Ministry also funded methadone case managers in 14 communities across the province, greatly improving the likelihood of successful treatment for people on methadone.

As well, the Ministry provided funding to enhance innovation in withdrawal-management services, moving the system from a bed-only model to one that offers more options, including in-home and day withdrawal-management services. The options have meant that women and older adults are better able to access the services.

Finally, the Ministry established standardized assessment tools to be used in all addiction-treatment programs, along with standardized service definitions and standardized admission/discharge criteria. These initiatives have been evaluated and changes are being made.

As well, the Ministry embarked on a major initiative between 2005 and 2008 to enrol all community addiction-service providers in a new management information system. While significant success was achieved in having providers submit information, as the Auditor General indicated, the LHINs and the Ministry must now turn their attention to improving the health service providers' compliance with reporting requirements, with particular attention to data quality in order to optimize use of the information for management of addiction service providers as well as for system-planning purposes.

These changes have all been accomplished at a time of transition, with the closure of the Ministry's regional office structure in March 2006, the establishment of the 14 LHINs, and the related devolution of ministry responsibilities to the LHINs on April 1, 2007. The Ministry continues to be responsible for legislation, policy, and program standards; the 14 LHINs are responsible for managing the local health systems, including planning, funding, and managing the service providers. The relationship between the Ministry and the LHINs is guided by the *Local Health System Integration Act, 2006*, the Memorandum of Understanding, and the Ministry/LHIN Accountability Agreement. In turn, the LHINs establish service accountability agreements with health-service providers, who report to the LHINs. The LHINs determine local needs, priorities, and strategies as well as improvements required to increase accessibility, co-ordination, and capacity. The Ministry and the LHINs are working together closely to achieve success for the health system.

Detailed Audit Observations

MEETING THE NEEDS

The Need for Treatment and the Treatment Gap

Historically, local agencies and programs provided addiction treatment services in Ontario, growing over time to respond to local needs rather than being part of a formalized, planned, integrated system. In our *1999 Annual Report*, we noted that the Ministry recognized that a more integrated addiction treatment system was needed and proposed a number of changes to increase treatment capacity and effectiveness and reduce wait times. Key amongst these was a more multi-faceted approach that included merging smaller treatment service providers into larger, more multi-functional service providers that would enhance the continuity of care and improve efficiency. Through service-provider mergers and amalgamations, the system as a whole could reduce various costs, such as administration, and reduce duplication of services.

During our current audit, we noted that program delivery at the local community level has remained relatively unchanged in most areas of the province since our last audit in 1999.

As a result, there is still significant work to be done to ensure that people with addictions are being identified and the services they need are being delivered in a cost-effective manner. As well, with the introduction of the *Local Health System Integration Act, 2006*, the LHINs have been assigned the responsibility to integrate the health system. The LHINs assumed operational responsibilities on April 1, 2007. Given the short time since the assumption of their responsibilities, the LHINs have experienced challenges in overseeing local addiction service providers (see also the Accountability at the Ministry and LHIN Levels and Addiction Services Provider Accountability sections).

According to a 2006 study conducted by the Canadian Centre for Substance Abuse, alcohol and drug abuse cost Ontario more than an estimated $8 billion annually. This $8 billion included direct costs arising from health care, law enforcement, research and prevention, and indirect costs arising from lost productivity. At present, no similar study is available to estimate the costs of problem gambling in Ontario.

Our research in other jurisdictions indicated that every $1 spent to treat substance abuse could result in $4 to $7 of potential savings in health care, law enforcement, social services, and other costs. The estimated savings for each $1 spent in Ontario would likely also fall within this range. In addition to savings in dollar costs, treating substance abuse results in savings in costs to society. These costs include human suffering, which is difficult to price, premature deaths, and injuries to victims from motor vehicle crashes and crimes. It is therefore important to identify the people who need treatment for substance abuse and, as early as possible, provide treatment that meets their needs and mitigates the potentially high costs to society of not providing such treatment.

The vast majority of Ontario's population needing addiction treatment services did not, however, receive the required services. On the basis of the Ministry's estimate of this population using 2002 population data, more than 90% of the population the Ministry identified as needing addiction treatment had not actively sought treatment, had not been identified as needing treatment, or the treatment services were not available. According to these data, only 7% of people suffering from substance abuse, and only 3% of people suffering from problem gambling, were treated. Our review of available statistics found that for about 6,800 people who were assessed with both substance abuse and gambling problems in 2006/07, only about 900 of them received treatment for both problems. The Ministry indicated that some people with addictions may have received treatment from their family physicians, Alcoholics Anonymous, or other sources, which the Ministry did not track in its system.

Neither the Ministry nor the LHINs had reliable information identifying the local communities in which people who need treatment reside.

RECOMMENDATION 1

To effectively meet the needs of people with addictions and to reduce the societal costs of addictions, the Ministry of Health and Long-Term Care should work with the Local Health Integration Networks (LHINs) to:

- better identify the population needing treatment for addictions; and
- develop approaches that will encourage individuals with addictions to seek the necessary treatment services.

MINISTRY RESPONSE

The LHINs have been mandated to plan for the local health needs of their communities, including the needs of people with addictions. The majority of the LHINs have identified the need to address addictions and mental health as priorities and will need to explore with their local providers strategies for encouraging people to seek treatment.

The Ministry will continue to consult and work with the LHINs about local priorities for addiction treatment to inform provincial initiatives and strategies.

To support the LHINs' efforts, the Ministry will continue its work to incorporate demographic and other data related to addictions into the new Health-Based Allocation Methodology initiative.

The Ministry will also continue to work with ConnexOntario and other provincial providers to enhance services that will encourage people with addictions to seek the necessary treatment services.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The LHIN responses in this report are joint responses from the three LHINs we visited as part of our audit.

All LHINs identified addictions (and mental health) as a priority in their Integrated Health Service Plans. Through extensive community engagement with stakeholders and local health system planning documents, the LHINs have a better understanding of both the extent and magnitude of the issues related to addiction in their local communities, which has been incorporated into planning and program development. The LHINs are committed to working with the Ministry to ensure that funding allocations support an equitable and integrated health-care system and effectively address unique local priorities and health-care needs.

Wait Times for and Availability of Addiction Treatment Programs

The Ministry recognized that early identification of addiction(s) increases people's likelihood of managing their addictions and recovery. Many service providers also indicated that access to timely and appropriate services is important because people who have to wait a long time for services tend to drop off wait lists, and can end up in shelters, hospital emergency departments, or jails, or returning to their addictions.

Management of the services available and the wait times related to these services could help identify areas that need action to address service needs. Service agreements require addiction service providers to regularly report to ConnexOntario (which maintains a database on the availability of addiction treatment services) on the treatment services they offer and the next available service treatment date. Our audit indicated, however, that more than three-quarters of substance-abuse and problem-gambling service providers did not report their service availability as required. This makes it difficult for the Ministry and the LHINs to reliably estimate the unmet demand for services or reallocate resources to high-priority areas. The following three sections present our findings on services and their availability from service providers we visited and surveyed by telephone and from those that did report to ConnexOntario.

Substance Abuse

Virtually all of the service providers that we surveyed by telephone had reported wait times for services. One provider reported an initial assessment wait of up to four weeks. Another provider reported a residential services wait of up to six months. Another indicated that delays in its ability to provide timely services required it to refer people out of province for treatment.

We also reviewed the substance-abuse services and the availability-dates data for the service providers that updated their data in 2008. Service wait times varied significantly between service providers:

- Adults seeking help could wait for an initial assessment for treatment from a low of one day to a high of 189 days, with an average wait of 24 days.
- Youths seeking help for substance abuse could wait for an initial assessment from a low of one day to a high of 210 days; their average wait was 26 days.
- Adults seeking residential treatment could wait from a low of seven days to a high of 340 days, with an average wait of 62 days.

When we visited service providers and reviewed their wait lists, we identified similar concerns. For instance, one service provider had 78 people waiting for substance-abuse residential treatment services, with an estimated wait time of about five weeks. This same service provider also had 75 people waiting for initial assessment for treating heroin addictions. The service provider informed us that the treatment program was full, so none of these people were being scheduled to receive an initial assessment for treatment unless the service provider could expand the program.

Problem Gambling

The Ministry's operating manual for addiction treatment services indicated that problem gambling was fully funded, so that clients would not need to be put on wait lists. However, our review of the service-availability data updated in 2008 found that there were wait lists. Specifically:

- People awaiting a problem-gambling initial assessment for treatment could wait from a low of one day to a high of 210 days, with an average wait of 22 days.
- People awaiting problem-gambling residential treatment could wait from 35 to 37 days.

We identified similar concerns during our service-provider visits. One service provider we visited had a two- to three-month wait for problem-gambling residential treatment. Another had a problem-gambling initial assessment wait time of about four weeks.

We found that neither the Ministry nor the LHINs regularly reviewed service wait times to help identify variability that could signal unacceptable service gaps requiring further follow-up or where funding could be reallocated to balance availability of services across the province.

Availability of Youth Residential Addiction Treatment

A ministry substance-abuse strategy document, released in 1999, noted that there were few services for youths with concurrent disorders (those involving both substance abuse and mental illness), and that there was an urgent need for short-term residential treatment services for youths suffering from addictions. Our current audit found that there was still an urgent need for such services. Our review of the data for youth substance-abuse residential treatments showed that youths could wait from a low of 49 days to a high of 93 days, with an average wait of 65 days.

One component of the Ministry's substance-abuse strategy was that clients would receive care as close as possible to their homes. This has not occurred. In fact, we found that many youths had to go out of province to receive addiction treatment. Our review found the following:

- The Ministry did not track the total number of youths sent to other Canadian provinces for addiction treatment. The Ministry indicated that community-based addiction services are not covered under the *Canada Health Act* and thus there are no interprovincial billing arrangements that would enable Ontario to track this data.
- The Ministry had information available only on youths sent out of Canada for addiction treatment. Between and including 2004/05 and 2007/08, about 200 youths were sent out of the country, at a cost of over $8 million, or about $40,000 each. They received treatments in Florida, Illinois, New York, Texas, Utah, and elsewhere.

At the time of our audit, the Ministry was funding a pilot project to treat youths in a designated Ontario-based service provider's facility to try to reduce out-of-country treatments. The Ministry informed us that the pilot results would be available in 2009.

RECOMMENDATION 2

To more effectively and consistently meet the needs of people seeking addiction treatment in a timely manner, the Local Health Integration Networks (LHINs) should work with their local health service providers, as well as neighbouring LHINs, and consult with the Ministry of Health and Long-Term Care, as appropriate, to identify unreasonably long treatment gaps and reduce them by implementing strategies to increase more immediate treatment-service availability.

In the case of youths requiring addiction residential treatment, these strategies should be consistent with the objective of providing treatment as close as possible to the clients' homes.

MINISTRY RESPONSE

Many LHINs have identified addiction services as a priority and are working with their health-service providers to develop strategies to improve co-ordination of services and wait-list management. The Ministry supports the recommendation that LHINs should work together on strategies that would result in services meeting the needs of people living in different LHINs.

The Ministry is committed to working with the LHINs to improve access to addiction treatment, including services for youth. The Ministry has provided funding to the Champlain LHIN to establish an additional 20 beds for youth with addictions in Ottawa. In addition, Waterloo Wellington LHIN has received funding to increase capacity by another 16 beds. All residential services are available to youth from across the province.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The LHINs agree with the ministry response.

Addiction Funding

Funding increases

Addiction service providers generally receive funding based on the amounts they historically received in previous years, plus any base inflationary increases for the year. Additional one-time funding or special-initiative funding was also provided to selected service providers for special activities such as methadone maintenance, withdrawal management, and programs for women.

Funding to treat substance-abuse addictions had increased by only 7% from 1998/99 to 2006/07, as shown in Figure 2. According to ministry documents:

- For the nine years between 1991/92 and 2000/01—and in 2002/03 and 2003/04—substance-abuse service providers did not receive any inflationary increases.
- In 2001/02 and 2004/05, service providers received a 2% base increase.
- In 2005/06 and 2006/07, service providers received additional 1.5% base increases annually.

In 2007/08, substance-abuse agencies received funding increases of 3%.

In our service-provider survey and during our service-provider visits, service providers made it quite clear to us that the lack of inflationary increases over the years has meant that ministry addiction funding has been insufficient for their ongoing operating needs. For instance, service providers with unionized staff contracts were required to pay salaries that increased 2% to 3% annually on average, while ministry base funding has not increased by that amount for most of the past decade.

In addition, our survey results indicated that the demand for substance-abuse treatment doubled for some service providers, and even tripled for others within the past decade. Service providers did not have the capacity to meet this increased demand, and the clients they were treating were presenting with increasingly complex conditions such as mental illness, homelessness, and multiple drug use.

To manage within their funding allocations, the service providers we visited stated that they had engaged in one or more of the following:

- When service providers sponsored by hospitals incurred substance-abuse expenditures greater than their ministry funding allocations, the hospitals absorbed the service providers' deficits. Of the providers we reviewed, we noted that sponsoring hospitals absorbed excess addiction expenditures ranging from $147,000 to $1.6 million in 2006/07.
- Independent service providers in the community reduced their numbers of clinical staff (resulting in reduced services) and administrative staff. One service provider we visited informed us that inflationary pressures had forced it to reduce staff numbers by about 8% over the past decade, though demand had increased, and there were long service wait lists. Another service provider informed us it had temporarily closed residential treatment beds, so it could reduce costs to balance its budget. Service providers also reduced staff training to cut costs.
- Some of the service providers devoted resources from fundraising activities to support their operations. Our review of the Ministry's revenue data for all service providers found that more than 30% of addiction service providers had conducted fundraising to support their operations. We noted that some service providers generated more than 20% of their total revenue from fundraising, with one service provider generating about 35% of its total revenue from fundraising.
- Our review of the Ministry's revenue data for all service providers found that about 15% of service providers charged fees for services. More than half of this fee-charging group generated more than 5% of its total annual revenue from these fees. In a few cases, service providers generated more than 20% of their total revenue from fees.

Figure 2: Funding for Substance Abuse and Problem Gambling

Source of data: Ministry of Health and Long-Term Care

	1998/99 ($ million)	2006/07 ($ million)	% Increase
substance abuse	94.5	101.10	7
problem gambling	3.5	27.65	690

In contrast, as Figure 2 demonstrates, problem-gambling funding has increased significantly since our last audit in 1999. The 690% increase over the past eight years was owing to the government's increased minimum commitment to problem gambling, which is based on a calculation of 2% of the gross slot-machine revenue from charity casino and racetrack slot-machine operations. Of the current $36.65 million in annual funding for problem gambling, $9 million is an annual allocation to the Ministry of Health Promotion that commenced April 1, 2006, and $10 million has been approved by Cabinet to treat clients with gambling problems who also had substance-abuse problems.

Per Capita Funding

In 2007/08, the Ministry analyzed per capita community addiction funding in each of the 14 LHINs. Funding ranged from a low of $1.92 to a high of $40.29 per capita. The Ministry noted that the differences could be attributable to factors such as rural versus urban, and residential versus outpatient treatment services. The Ministry did attempt to act on the results of its analysis by addressing these funding inequities through a new funding allocation. However, the allocation methodology still left significant funding inequities, with the per capita funding per LHIN ranging from a low of $2.97 to a high of $40.99. We noted that the Ministry was developing for the hospital sector a population-based funding methodology with adjustments for health status and patient flows. The Ministry informed us that it had yet to develop a similar funding approach for the community addiction sector. The current funding inequity can result in clients with similar addiction needs receiving a significantly different level of service depending on where in Ontario they live.

RECOMMENDATION 3

To ensure that substance-abuse and problem-gambling funding is based on appropriately established priorities and is equitable across the province, the Ministry of Health and Long-Term Care should work with the Local Health Integration Networks (LHINs) to:

- ensure that the allocation of funding between substance abuse and problem gambling recognizes the number and types of clients needing treatment;
- allocate addiction funding based on specific community client needs rather than on historical funding; and
- implement strategies that will address funding inequities across different regions so that clients with similar addiction issues receive similar and appropriate levels of treatment services wherever they live in Ontario.

MINISTRY RESPONSE

To support the LHINs' efforts, the Ministry will continue its work to incorporate demographic and other data related to addictions into the new Health-Based Allocation Methodology (HBAM) initiative. The intent of HBAM is to recognize the characteristics of the population within a LHIN for planning purposes and to allocate resources on a more equitable basis across the province.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The LHINs support HBAM in principle and agree with using population health as a basis for developing a funding allocations model. However, it is important for whatever funding model is used to consider LHIN-specific issues. An important LHIN-specific issue relates to the unique differences in the delivery of addiction services among LHINs. Specifically, the delivery of addiction services in a northern LHIN will differ from delivery in a totally urban LHIN.

There are a number of factors when considering per capita funding. Funding allocation decisions must consider and address issues of geography, language, culture, variable patient inflows and outflows across LHINs, large migrations of people to a particular LHIN, provision of high-cost and specialized service supporting clients both within and outside the LHIN, and the complexities of health human resources and maintaining an academic mission. For instance:

- *Isolation*—Northern LHINs provide addiction services to isolated communities with specific linguistic and cultural issues. Typically, there are long distances between communities and service providers.
- *Delivery of care models*— These differ across agencies.
- *Inflow of clients from other LHINs*—Urban LHINs provide services to a significant number of residents of other LHINs. There is a large migration of people from outside the LHIN to work or attend school within the LHIN. Many receive care within that LHIN.
- *Specialized service client inflow for addiction services*—As many as half of the people who receive specialized addiction services from urban LHINs are residents of other LHINs.
- *Large numbers of homeless and marginalized clients*—Urban LHINs serve a large and highly diverse population with a broad range of addiction services.

The LHINs will work with the Ministry in the development of a funding model that ensures allocations support an equitable and integrated health-care system and effectively address unique local priorities and health-care needs.

Provincial Assessment Tools

In 2000, the Ministry implemented, and required service providers to use, provincial substance-abuse standardized assessment tools to gather client information, and to determine the type and severity of their clients' addictions. Substance-abuse service providers were also required to apply specific criteria for admission and discharge. These tools and criteria were meant to streamline the assessment process, and help ensure that clients were assessed consistently and provided with the appropriate level and intensity of substance-abuse treatment at that point in time. In addition, the Ministry required service providers with problem-gambling clients to apply a different standardized assessment tool.

In 2006, the Ministry hired addiction experts to evaluate the impact of the substance-abuse admission and discharge tools and criteria. One of the more significant comments noted in this ministry review was that, in general, most service providers were using the required substance-abuse assessment tools to assess clients. The review also indicated, however, that service providers did not consistently apply the admission and discharge criteria in the intended systematic manner, in order to determine the appropriate level of care. The review further stated that the lack of systematic use of the criteria reflected a lack of understanding of the use and importance of the criteria. In addition, the review indicated that a number of service providers had expressed the view that they needed more training, particularly on how the tools were meant to be used in conjunction with the criteria.

The expert review also noted that the time required to complete an assessment ranged from one to nine hours. The times varied because of the way in which the tools were used, the type and comprehensiveness of the additional information collected, and the structure and content of assessment variables. These variables were above and beyond the differences in practice that could be attributed to client characteristics. These differences could be attributed to differing expectations of what constitutes an initial assessment, and to the level of commitment to, and understanding of, the tools and criteria. According to the staff we interviewed at our agency visits, it took between one-and-a-half and four hours to complete assessments.

At our visits we also found that service providers were using the substance-abuse tools in conjunction with other tools they deemed necessary. However, we found that they often did not use the specified criteria for admission and discharge because, according to service-provider management, staff had sufficient experience to apply professional judgment in determining the treatment appropriate to their clients' needs.

All the service providers we visited indicated that they had concerns with the problem-gambling assessment tool. Their concerns included the fact that the tool sometimes falsely identified people as pathological gamblers, the tool was too basic, the questions asked generated many "yes" and "no" answers with little detail provided, and the language used was considered to be offensive in that it labelled the assessed client as a pathological gambler. Half of these service providers used other tools they considered more appropriate to assess clients, instead of the common assessment tool.

RECOMMENDATION 4

To ensure that addiction clients are assessed consistently to determine the appropriate type and level of treatment, the Ministry of Health and Long-Term Care and the Local Health Integration Networks (LHINs) should:

- encourage local health-service providers to obtain appropriate training on the application of the substance-abuse assessment tools and criteria; and
- determine the appropriateness of the problem-gambling assessment tool currently in use and consider replacing or supplementing it with other more useful tools, if necessary, to address the concerns of the service providers.

MINISTRY RESPONSE

To optimize the outcome for the treatment of people with substance-abuse issues, the Ministry and the LHINs will encourage addiction agencies throughout Ontario to access and take advantage of the training currently offered by the Centre for Addiction and Mental Health on the application of the substance-abuse assessment tools and criteria. The Ministry has also evaluated the use of these assessment tools and criteria and continues to work in that area to ensure appropriate use by agencies.

With respect to problem-gambling assessment tools, there is only one tool that experts consider valid and reliable, and it is this tool that is currently in use in Ontario. However, the Ministry is prepared to investigate the availability of new tools that would be useful and applicable in Ontario.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The LHINs agree with the ministry response.

MONITORING FOR COMPLIANCE

Accountability at the Ministry and LHIN Levels

The Ministry created Local Health Integration Networks (LHINs) to manage the local health-service-provider system and work with community members, and to determine the health service priorities within each of Ontario's 14 regions. The rationale for the LHINs, according to the Ministry, is that the best way to plan, co-ordinate, and fund community-based care in an integrated manner is to do this at the community level. It was felt that the LHINs would be better able to address unique local population needs and priorities, consistent with the Ministry's strategic direction.

The LHINs are not-for-profit organizations governed by appointed boards of directors. They are responsible for administering their local health system to ensure that services are integrated and co-ordinated; they do not provide services directly. Their mandate, as set out in legislation, includes engaging communities on an ongoing basis to develop an Integrated Health Service Plan (Plan). This Plan must include a vision, priorities, and strategic directions for the local health system, and strategies to integrate the local health system, including its addiction sector.

In our visits to the three LHINs, we found that all had conducted community engagement through activities such as community consultations and focus groups to help identify the priorities for their regions. These priorities contributed to the LHINs' development of their Plans. Two of the LHINs had conducted environmental scans to determine socio-demographic information, health behaviours, and health status of their populations in order to help them identify their local needs and priorities. The three LHINs submitted the required Plans that included actions to address the treatment of people with addictions, although the degree of action to be taken varied between Plans.

Addiction Service Provider Accountability

Approximately 150 addiction service providers, each governed by its own independent board of directors, are responsible for the delivery of treatment services. The responsibilities of these service providers are outlined in signed service agreements that set out ministry expectations, terms, requirements for receiving funding, and the conditions under which the agreement can be changed, amended, or terminated. This is in line with the government's Transfer Payment Accountability Directive.

Under the *Local Health System Integration Act, 2006*, these signed service-provider agreements were assigned to the LHINs effective April 1, 2007. These service-provider agreements remain effective until the LHINs develop new addiction-service-provider accountability agreements. These new agreements are to come into effect from April 1, 2009 onwards.

Operating Plans

Before the Ministry transferred operational responsibilities to the LHINs on April 1, 2007, service agreements required each service provider to submit an annual operating plan to the Ministry for each program. These operating plans detailed information such as the target population to be served, services to be provided in the current year, program goals, objectives, and measurable outcomes. The purpose of this information was to enable the Ministry to monitor the service providers' operations and assess whether the outcomes of the services provided were in accordance with stated goals and objectives and funding provided.

The LHINs we visited, however, informed us that the LHINs did not require service providers to submit 2007/08 operating plans, and that they instead relied on the service providers' 2006/07 operating plans for service-provider service information and monitoring purposes.

Our audit found the following:

- The three LHINs we visited were missing 40% to 72% of the 2006/07 operating plans from their addiction service providers. The LHINs indicated that they had only what the Ministry had transferred to them when it closed the local regional offices; the Ministry said that all operating plans had been transferred to the LHINs.
- We noted in our review of ministry files for the service providers we visited that the files for 60% of the service providers did not contain copies of all their programs' 2006/07 operating plans.
- At the time of our audit, there was no formal monitoring being done to assess whether the funded services were being provided.

The service providers we visited told us that they were not sure how the LHINs would be aware of their current operational goals and services to be delivered as the requirement to report on achievement of them had been discontinued after the 2005/06 fiscal year, and they had not been required to submit any operating plans to the LHINs since the inception of the LHINs in 2007.

Required Reporting by Service Providers

Service providers were and are required, after the establishment of the LHINs, to report regularly various types of information to the Ministry, for the purposes of monitoring, assessment of treatment-service usage, referral, and outcome and cost-analysis purposes. This information included:

- expenditures to the Ministry's Management Information System (MIS) on a quarterly basis. Ministry guidelines stated that service providers spend a minimum of 80–85% on direct services costs and a maximum of 15–20% on central administration costs;
- client demographic and service-utilization data and information on services offered, on a quarterly basis; and
- availability dates for substance-abuse and problem-gambling treatment services, on a weekly basis.

Our review of reported data indicated significant non-compliance with the reporting requirements identified above. For instance, about one-fifth of all service providers did not report their 2006/07 expenditures, and more than three-quarters of substance-abuse and problem-gambling service providers did not report service-availability dates as required. Among those that had submitted the required information, we found unreasonable variations from norms or established guidelines suggesting that either performance or data-quality issues existed and were generally not followed up on.

For example, our review of the 2006/07 reported data indicated the following:

- More than 40% of service providers reported administration expenses higher than the ministry maximum of 20%, while another 20% of the service providers reported no administration expenses at all. Some service providers reported that more than 50% of their expenses went to administration, and one service provider reported that 100% of its expenses went to administration, which is, clearly, highly unlikely.
- The funding guideline for problem gambling was a caseload of 50 to 60 clients per year for each agency's first counsellor and 100 to 120 clients per year for each additional counsellor. The reported data indicated that almost half of the service providers served fewer than 50 clients per counsellor (fewer than half the minimum guideline). One service provider served only three clients per counsellor, at a cost of $26,000 per client for the year.
- Residential treatment for substance abuse had no funding guideline. According to the reported data, the average caseload was 23 clients per full-time staff, with an average cost of $2,800 per client. About one-third of the service providers, however, served less than half the average caseload. One service provider served only three clients per full-time staff, at a cost of $19,000 per client for the year.
- Community treatment for substance abuse also had no funding guideline. According to the reported data, the average caseload was 110 clients per full-time staff, with an average cost of $600 per client. More than 20% of the service providers served fewer than half of the average caseload. One service provider served only 10 clients per staff, at a cost of $7,500 per client for the year.

When we followed up on these variances with the Ministry, we were informed that it would review the problem-gambling area this year, but it would be up to the LHINs to make any program or service-provider changes. The Ministry also informed us that it funded each service provider participating in the residential and community substance-abuse treatment programs on the historical basis of how much it had asked for about 20 years ago, rather than on any formula of how much a service should cost. The Ministry further indicated that it did not have reliable data on these programs' utilization.

The current Ministry-LHIN Accountability Agreement required the Ministry to conduct routine data-timeliness and quality checks on data and information submitted by health service providers, including:

- contacting health-service providers on behalf of the LHIN about late reports, missing data, and inconsistent data;
- measuring the timeliness and quality of data submitted by health service providers; and
- providing reports to the LHIN in the event of an issue with data timeliness and quality submissions by health service providers.

However, ministry information-systems staff indicated, in our discussions, that there were no mechanisms to review and verify the data submitted in the required reports from service providers. For 2007/08, we were informed, the Ministry would prepare standard template reports for the addiction sector, to help in its review of the reported data. These reports would provide expenditures by LHIN, by service provider in each LHIN, and by types of services. Revenue reports would also be generated.

As indicated elsewhere in this report, we had significant concerns with the quality of data reported. This lack of quality data impeded the ability of the Ministry and the LHINs to monitor and assess the service providers' performances. A more detailed discussion follows in the Quality of Data in the Information Systems section.

Service providers we visited indicated that they did not know if the required information they submitted was used, because they rarely received any comments or feedback from the Ministry about this information. Even when they did not submit the required data, they never received specific follow-up requests to submit the information. As well, like most small service-delivery operators, they have limited resources to meet reporting requests, making it critically important that only operational data that is needed is requested.

Although the accountability agreements required that the Ministry and the LHINs jointly develop guidelines for the LHINs on conducting audits, inspections, and reviews of service providers in 2007/08, these guidelines had not yet been developed at the time of our audit.

Quality of Data in the Information Systems

In addition to the information system ConnexOntario maintains (a referral system with data on addiction treatment and service availability), the Ministry funds and maintains other information systems to capture different types of data relating to addictions in Ontario. Two of them are the Management Information System (MIS) and the Drug and Alcohol Treatment Information System (DATIS).

The Ministry maintains MIS to collect standardized financial and statistical information on service providers' treatment services. The Ministry provides funding to the Centre for Addiction and Mental Health to maintain DATIS. DATIS tracks client demographic and service-utilization data from service providers across the province. To help ensure that the data reported to the information system in areas such as case management, initial assessment, and community treatment are consistent, the Ministry has developed standardized service definitions.

These three information systems have the potential to provide management of the service providers, the LHINs, and the Ministry with excellent information for decision-making and monitoring. For instance, the Ministry has been using these data to arrive at a set of pre-determined indicators that service providers could use to evaluate their financial, staffing, utilization, and volume performance and compare it with that of other service providers.

For the Ministry to properly review identified needs, service utilization, and the resources required to assess and treat addiction throughout the province, the data that service providers submit to the systems must be complete and accurate. However, we found the following:

- At more than half of the service providers we visited, there were discrepancies between the financial information reported in the Ministry's MIS for the 2006/07 fiscal year and the service provider's supporting documents. For example, one service provider incorrectly reported $837,000 of its residential treatment expenses under another treatment program.

- Most of the service providers we visited had overstated the number of clients served. For example, one service provider reported the same clients twice—once under the community treatment service category and a second time under the day/evening care service category. This resulted in double counting by about 300 individuals. Another service provider overstated its number of clients served by almost 80% for the year. It had added the year's 12 monthly numbers of clients served in its residential withdrawal-management program, and reported this total as the total number of clients that had been served in the year. Therefore, individuals who had received withdrawal-management treatment in more than one month of the year were counted more than once.
- Only one service provider we visited had correctly recorded case-management activities in accordance with the Ministry's case-management definition. The rest either did not report any case-management data or only reported case-management activities for one of their many programs.
- There was no ministry standard definition in place that defined the length of time a case could stay active with no ongoing activity. Service providers we visited had not closed files that had been inactive for various lengths of time, ranging from two months to more than two years. This resulted in overstatement and inconsistent reporting of the number of active cases.

As noted earlier, under the Ministry-LHIN Accountability Agreement, the Ministry is responsible for conducting routine data-timeliness and quality checks on data and information submitted by service providers, including contacting service providers about late reports, missing data, and inconsistent data. The LHINs are to work with the service providers to improve data quality and timeliness. Ministry and LHIN staff informed us that they had not conducted such checks.

RECOMMENDATION 5

To ensure that people with addictions are receiving the services being funded, the Local Health Integration Networks (LHINs) should continue to obtain knowledge of service providers' operations (through operating plans or other means) for the funded services and the related goals and outcomes.

In addition, the Ministry and the LHINs should:

- develop guidelines for conducting reviews of service-provider operations to determine whether funded services are being delivered cost-effectively;
- reassess service-provider data-reporting requirements so that the LHINs and the Ministry collect only the necessary information they actually need to oversee their providers; and
- establish processes to ensure that the needed information maintained in various information systems is complete and accurate to maximize the benefits offered by these systems.

MINISTRY RESPONSE

Effective April 1, 2007, the LHINs assumed the role of health-system manager. They determined that in the 2007/08 fiscal year, they would request only a budget and not a full operating plan from the addiction-service providers because this was a transitional year and the budget increases provided by the LHINs would not result in significant service changes.

The Ministry and the LHINs are currently finalizing new accountability mechanisms that will apply to the addiction sector. The new approach will require health-service providers to submit Community Annual Planning submissions in fall 2008 that will describe their services, budgets, and other matters and serve as the basis for negotiation of a new Service Accountability Agreement beginning in the 2009/10 fiscal year. This proposed agreement provides for the LHINs to conduct periodic reviews of the health service providers.

In addition, the Ministry and the LHINs are working together to develop guidelines for agency audits and reviews, including identification of sentinel indicators that would alert a LHIN that a review or audit may be required.

The Ministry and the LHINs currently have a mutual obligation to identify and discuss data and information gaps, information-management requirements, and data-quality issues.

The Ministry currently supports data-quality efforts through additional business logic rules and focused data-quality sessions with the sector. Both aspects of data quality will be further enhanced over the coming year.

As well, the Ministry will conduct timely data-quality checks and the LHINs will work with the health-service providers to improve their compliance with these requirements.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The LHINs agree with the ministry response.

Financial Approvals

The Ministry's operating guidelines required addiction service providers to submit an annual budget package that included forecasted revenues and expenditures for the upcoming year.

To assess whether budgets were submitted and approved on a timely basis, we reviewed the budget-submission processes at the Ministry for the 2006/07 fiscal year, and at the LHINs we visited, for 2007/08. Our review found:

- The budget-submission package for the Ministry's 2006/07 fiscal year was due to the Ministry on April 21, 2006—21 days after the start of its fiscal year. With LHINs assuming their responsibilities on April 1, 2007, the budget-approval-submission process for the 2007/08 fiscal year was delayed. For instance, the process at one LHIN began as late as October 2007. This meant that the budgets of service providers were not approved until much later still—some as late as January 2008.
- One of the three LHINs we visited had taken the initiative to develop an internal checklist for use in review of service-provider budgets. The checklist ensured that all essential budget areas were reviewed, and that the review would be documented for reference or follow-up action. The review itself compared the approved revenue amount to the reported amount. It also compared data from the current year to data for the prior year in areas such as total and administrative expenses, clients served, and staffing. Staff at the other two LHINs informed us that they reviewed service-provider budgets on their computer screens but did not document their work or whether they had any concerns requiring follow-up.
- Budget approvals were not provided to service providers on a timely basis. Our sample of ministry files for the 2006/07 fiscal year, for instance, showed that approvals were given 160 days after the start of the fiscal year on average; one was 283 days late. In addition, a number of the LHINs' approvals were given as late as January 2008—just two months before the service providers' fiscal year-end.

RECOMMENDATION 6

The Local Health Integration Networks (LHINs) should ensure that:

- service providers submit budgets before the start of a new fiscal year;
- budgets are thoroughly and consistently reviewed and follow-up concerns are documented; and
- service providers' budgets are approved on a more timely basis.

MINISTRY RESPONSE

The LHINs are responsible for managing their local health service providers and establishing effective budget-submission and review processes to appropriately fulfill those functions.

The Ministry will improve the timeliness of the budget reviews for those agencies that continue to report to the Ministry.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

With the devolution of authority from the Ministry to the LHINs, the LHINs assumed responsibility for negotiating service accountability agreements with health-service providers. Along with other community agencies, the LHINs and Addiction Service Providers are in the process of developing and implementing a new Multi-sectoral Service Accountability Agreement (M-SAA) process to take effect in the 2009/10 fiscal year. As M-SAAs will be signed prior to the new fiscal year, agencies will therefore know their funding allocation prior to the start of a new fiscal year with clearly articulated expectations including performance targets.

Financial Year-End Settlement

Although the LHINs are now responsible for approving and allocating funds to service providers, they rely on the Ministry to continue recovering all unspent service provider funds, at year-end, on their behalf.

To this end, both independent and hospital-sponsored service providers were required to submit settlement forms to the Ministry. These settlement forms reported revenues and expenditures related to addiction programs funded by the Ministry before April 1, 2007 and by the LHINs after April 1, 2007. Providers were also to submit Auditor's Questionnaires, which certified that the year-end information agreed with the audited financial statements and underlying financial program records. These questionnaires were to be signed by either external auditors or the service providers' internal audit department (if there is one), or the Chief Financial Officer.

Year-end settlement packages were due by May 31 or August 1, depending on whether or not the service provider had converted to the Ministry's Management Information System.

Our review of a sample of year-end service-provider settlement packages found the following:

- At the time of our visit, the Ministry was significantly behind in its review of the service-provider settlement packages. Its backlog extended back to 2000/01. We estimate that the unrecovered surpluses were about \$3.5 million for 2006/07 alone.
- More than two-thirds of the 2005/06 settlement packages were submitted to the Ministry later than their due dates. They were submitted an average of 75 days late, with one 232 days late.
- About 70% of the files did not report depreciation or amortization expenditures on the settlement form, for removal from total expenditures eligible for funding. There was no ministry follow-up on the non-reporting of such ineligible expenditures.

The lack of timely receipt, review, and follow-up of year-end settlement packages resulted in untimely recovery of surplus funds.

RECOMMENDATION 7

To ensure prompt and appropriate recovery of surplus funds from service providers, the Ministry of Health and Long-Term Care should:

- review the settlement packages on a timely basis; and
- follow up on ineligible expenditures, such as amortization, for exclusion when determining the final settlement balance.

In addition, the Local Health Integration Networks (LHINs) should require service providers to submit their settlement packages by the due date.

MINISTRY RESPONSE

The Ministry agrees with this recommendation. It has completed approximately 50% of the backlog of settlements and expects to have all outstanding settlements, up to and including the 2006/07 fiscal year, completed by March 31, 2009. The Ministry is also actively following up on ineligible expenditures, such as amortization, for exclusion if it is deemed material. The 2007/08 version of the year-end report includes specific line items to deal with amortization.

In order for the Ministry to complete settlements on a timely basis, the Ministry will work with the LHINs to ensure that health-service providers submit these reports as required.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The LHINs agree with the Ministry response. The LHINs monitored budgets in the second and third quarters of the 2007/08 fiscal year to confirm surpluses and deficits, and did reallocations. Quarterly reporting of surpluses is mandated in the new M-SAAs, which will result in early identification and resolution of agency surpluses.

MEASURING AND REPORTING EFFECTIVENESS

To measure the performance and the effectiveness of the addiction programs, in 2006, the Ministry began developing a strategy-based performance-management process. One critical component of this process is the "Scorecard"—a collection of key performance indicators linked to the Ministry's strategic goals.

In May 2008, the Ministry produced a draft addiction-system Scorecard that included 13 preliminary indicators to measure some aspects of the strategic goals, focusing on overall provincial performance levels. These performance indicators included, for example, the amount of addiction funding per capita and per person in need of service, and the ratio of residential and non-residential service utilization. At the completion of our audit, the Ministry was still considering the development of additional indicators for measuring effectiveness. While the Ministry has taken the initiative to set the stage for measuring results through the use of such preliminary indicators, it indicated that it would require more work to set targets against which the actual results achieved could be compared.

RECOMMENDATION 8

To enable the Ministry of Health and Long-Term Care and the Local Health Integration Networks (LHINs) to assess the effectiveness of addiction programs, the Ministry should work with the LHINs to:

- establish acceptable targets for the indicators; and
- measure and report on variances between results achieved and established targets, and implement corrective action where needed.

MINISTRY RESPONSE

The Ministry accepts the recommendation that indicators and targets should be established for addiction services. Currently, indicators are being incorporated within the new service accountability agreements that the LHINs will sign with their addiction service providers by 2009/10.

The LHINs are monitoring their health-service providers' achievements of targets and taking appropriate action on any variances.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The LHINs agree with the ministry response.

Problem Gambling

Provincial Strategy and Revenue Accountability

As indicated earlier, through Cabinet approval, the government allocates 2% of gross slot-machine revenue from charity casinos and racetrack operations to problem-gambling initiatives, in order to address the harm that can arise from problem gambling. The Ministry is responsible for funding problem-gambling programs. As a result, the minimum amount allocated to problem gambling increased from $10 million in 1999/2000 to its current level of $36.65 million annually since 2003/04.

After a 2005 provincial review of problem gambling and responsible gaming, in 2006, Cabinet approved a new provincial problem-gambling strategy that included prevention, treatment, research, and responsible gaming. The Ministry was to implement this strategy in collaboration with three other ministries—Health Promotion, Public Infrastructure Renewal, and Government Services. The new strategy included a vision, principles, and key outcome measures, as well as goals and objectives.

As part of the new strategy, $9 million of problem-gambling revenue (at minimum, a quarter of the 2% revenue allocation) was transferred to the Ministry of Health Promotion to conduct provincial prevention activities. The Ministry of Health and Long-Term Care allocated the remaining $27.65 million to local gambling prevention/awareness, research, and treatment activities. These funds were allocated, through base funding, to 50 existing substance-abuse service providers to help them also provide problem gambling services. These funds also supported research activities. Funds were also provided for one-time projects and to provincial agencies for establishing activities such as the Problem Gambling Helpline.

A portion of the funding the Ministry provided to service providers was to be spent on their local prevention and awareness activities. Our service provider visits found that all provided local prevention activities for substance abuse and problem gambling, including distribution of pamphlets and materials, presentations at local schools and community centres, and establishing linkages with local enforcement agencies.

However, the Ministry had not provided strategic direction for these local activities, had not assessed their effectiveness, and had not co-ordinated local prevention and awareness activities with the Ministry of Health Promotion's provincial activities.

Furthermore, at the time of our audit in April 2008, the Ministry's new problem-gambling strategy, approved in 2006, had still not been released to the public.

In addition, while many ministries were to be involved in developing and implementing the problem-gambling strategy, we found no overall reconciliation to ensure that the $36.65 million was actually being spent on problem-gambling initiatives.

RECOMMENDATION 9

To ensure that local problem-gambling-prevention activities are in line with provincial strategic goals, the Ministry of Health and Long-Term Care should ensure that communication occurs between the Local Health Integration Networks and other affected ministries to:

- co-ordinate local prevention and awareness service-provider activities with the Ministry

of Health Promotion's provincial activities; and
- assess the effectiveness of local prevention/awareness activities.

MINISTRY RESPONSE

The Ministry continues to work with the Ministry of Health Promotion, responsible for prevention of problem gambling, the Ministry of Government and Consumer Services, responsible for the Alcohol and Gaming Commission, and the Ministry of Energy and Infrastructure, responsible for gaming policy, to co-ordinate our mutual efforts to prevent and treat problem gambling in Ontario.

The Ministry requires the LHINs to fund only problem-gambling services with the resources it receives for this purpose. The LHINs' problem-gambling service providers offer both prevention and counselling programs.

The Ministry agrees that optimal results will be achieved if provincial and local gambling-prevention activities are co-ordinated, and it will encourage the LHINs and the Ministry of Health Promotion to work together.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The LHINs agree with the ministry response.

Ontario Problem Gambling Helpline

In addition to maintaining data on service providers' treatment services and treatment availability, ConnexOntario maintains helplines for both substance abuse and problem gambling.

The Ontario Problem Gambling Helpline provides problem gambling information and referral services province-wide, to health-care professionals and the public. It provides immediate access to information about treatment services, family services, self-help groups, and other resources related to problem gambling, seven days a week, 24 hours a day.

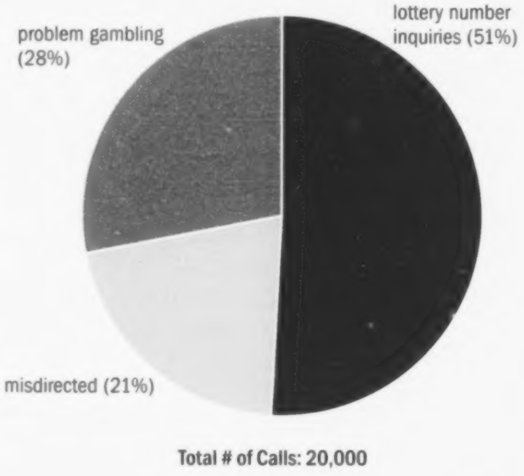
Various studies commissioned by the province indicated that 2% to 4.8% of adults in Ontario—approximately 251,000 to 602,000 adults—were moderate to severe problem gamblers. For treatment purposes, the Ministry estimated that only about 193,000 people were in need of problem-gambling treatment.

Ontario's addiction service providers treated an estimated 5,900 problem gamblers. The number of problem-gambling concern calls made to the helpline was likewise very low. As shown in Figure 3, the majority of the calls received by the helpline (over 70%) were unrelated to problem gambling concerns: they were either inquiries related to winning lottery numbers or misdirected calls. This could indicate that the people calling were not aware of the purpose of the helpline.

Ministry staff indicated that they were concerned with the low number of calls related to problem-gambling concerns and the low numbers of problem gamblers treated. However, they indicated that other jurisdictions experienced similar issues.

Figure 3: Calls to the Ontario Problem Gambling Helpline, 2006/07

Source of data: Ministry of Health and Long-Term Care



To increase the effectiveness of the helpline, the Ministry funded a three-year pilot project, commencing in 2007, to expand the services it provided to include:

- referring callers to staff who have in-depth knowledge in dealing with problem gambling;
- offering self-help materials; and
- asking helpline staff to directly book appointments with a selected number of problem-gambling service providers.

RECOMMENDATION 10

To help more problem gamblers receive appropriate treatments, the Ministry of Health and Long-Term Care should work with ConnexOntario and the Ministry of Health Promotion to increase awareness of where problem-gambling treatment is available.

MINISTRY RESPONSE

The Ministry is continuing to work with ConnexOntario on strategies to improve awareness of problem-gambling treatment programs, to refer callers to these programs, and to provide resource materials to callers that may assist a person in making a decision in seeking help.

The Ministry will discuss with the Ministry of Health Promotion and ConnexOntario strategies that could be implemented to expand awareness of the availability of problem-gambling treatment services in Ontario.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The LHINs agree with the ministry response.

Chapter 3
Section
3.02

Ministry of Community Safety and Correctional Services

Adult Institutional Services

Background

The Adult Institutional Services (AIS) division of the Ministry of Community Safety and Correctional Services (Ministry) operates correctional institutions for incarcerated adults in Ontario. The Ministry is authorized to incarcerate persons under the federal *Prisons and Reformatories Act* and the provincial *Ministry of Correctional Services Act*. Inmates include convicted offenders and accused persons. Convicted offenders are those sentenced to terms of up to two years less a day, or those awaiting transfer to a federal penitentiary, while accused persons are those awaiting bail, remanded in custody awaiting trial, or being held for reasons related to immigration. Offenders receiving sentences of two years or more are transferred to federal penitentiaries. AIS provides custody and supervision until the inmate is discharged by a court, is transferred to another jurisdiction, receives parole, or completes the term of imprisonment.

In the 2007/08 fiscal year, on any average day Ontario had about 8,800 inmates in its institutions—8,200 males and 600 females. This includes approximately 550 offenders who serve their sentence on an intermittent basis, typically on weekends. On average, over 70,000 adults are admitted each year into provincial jails, detention centres, and correctional centres.

AIS operates 31 correctional institutions across Ontario:

- 12 jails—typically older and smaller facilities that were originally established by counties or municipalities, and are used primarily for accused persons remanded in custody awaiting bail or trial;
- seven detention centres—large facilities that primarily hold accused persons remanded in custody and some convicted offenders;
- nine correctional centres—large facilities, including one female-only centre and two so-called "super jails," that typically hold convicted offenders sentenced to more than 60 days and some accused persons remanded in custody; and
- three treatment centres—facilities that provide offenders with specialized and intensive treatment related to substance abuse, sexual misconduct, anger management, and severe mental illness.

AIS had operating expenditures of approximately $575 million in 2007/08, of which about 78% was for the cost of some 5,500 staff.

Audit Objective and Scope

Our audit objective was to assess whether the Ministry had adequate procedures and systems in place to:

- ensure that institutional resources were managed with due regard for economy and efficiency;
- ensure that institutional services and programs were delivered in accordance with legislative and ministry requirements; and
- measure and report on the effectiveness of the key services and programs delivered for enhancing public safety, reducing recidivism, and contributing to the rehabilitation of offenders within society.

We conducted our audit work at the AIS head office in Toronto, its office in North Bay, and at seven correctional institutions. We interviewed ministry personnel, examined records and documents, observed and tested operations at several of the institutions we visited, and reviewed relevant studies, statistics, and major contracts. We also considered the recommendations we made in our report on our last audit of this program in 2000. Related recommendations made by the Standing Committee on Public Accounts to the Ministry in 2001 regarding their review of our 2000 report were considered as well.

We researched correctional services in other jurisdictions, including Alberta and British Columbia, where we toured correctional institutions and met with senior management who shared with us their perspectives on providing correctional services. The audit also benefited from our observations on court backlogs made in a concurrent audit we performed on the Ministry of the Attorney General's Court Services program.

While at institutions, we held discussions with staff of Trilcor Industries, which is a Ministry program that uses inmate labour to produce goods and services, such as Ontario licence plates, prison clothing, and prison laundry and provides work- and industry-related training to these inmates. However, the scope of our work did not include an audit of Trilcor's operations.

Our audit followed the professional standards of the Canadian Institute of Chartered Accountants for assessing value for money and compliance. We set an objective for what we wanted to achieve in the audit and developed audit criteria that covered the key systems, policies, and procedures that should be in place and operating effectively. These criteria were discussed with and agreed to by senior management at the Ministry. We designed and conducted tests and procedures to address our audit objective and criteria.

Over the past several years, the Ministry's internal auditors have conducted a number of audits of individual correctional institutions; these audits have included tests and assessments of management's compliance with required policies and procedures, including institutional security requirements. These audits were helpful and of sufficient quality to allow us to reduce the extent of our work in certain areas.

Summary

Although the Ministry of Community Safety and Correctional Services (Ministry) has invested over $400 million in infrastructure renewal over the past decade, it has been unable to meet its commitment to significantly reduce the average cost of incarcerating inmates as a result of this investment. During this period, it has had to respond to a significant change in the makeup of its inmate population. While the overall number of inmates has increased 11%, more importantly, the number of inmates remanded in custody awaiting their court appearances has doubled and now represents almost 70% of all inmates. Because many of these inmates have been charged with serious crimes, such as murder, drug trafficking, or possession of illegal weapons, remanded inmates must generally be placed in maximum security. On the other hand, although the Ministry has not been successful in reducing costs, it has made good progress in reducing security incidents, including escapes, in recent years.

Some of our more significant observations include the following:

- Under its 10-year Adult Infrastructure Renewal Project (AIRP) that ended in 2005/06, the Ministry spent over $400 million to modernize correctional institutions and increase efficiency. The Ministry expected its investment in AIRP to result in a significant reduction in overall operating costs, but that did not occur. Although the Ministry set a target to have one of the lowest operating costs for correctional institutions in Canada, Ontario still ranks the highest compared with five other large provinces. This is true even when the comparison is made only with the institutions modernized or built under AIRP, which account for over 60% of all provincial inmates. We noted that Ontario's two new super jails operate at costs comparable to those achieved in other provinces.
- In 2004/05, the Ministry launched a transformation strategy with plans to eliminate 2,000 beds by 2007/08 and save $60 million annually. However, by 2007/08, it had achieved no substantial savings and AIS actually had almost 1,000 more inmates than when the strategy was introduced. Currently, Ontario's correctional institutions operate overall at 100% of inmate capacity, with 11 institutions operating at up to 135% of their capacity. Current facilities are overcrowded and at increased risk of inmate disturbances, labour-relations issues, and health and safety concerns for staff and inmates. The Ministry predicts that it may be short 2,000 beds by 2010/11.
- Use of and participation in community programs to reduce the number of offenders serving their sentences in institutions remain low. The Ministry's initiatives since 2003 to have up to 1,300 offenders serving their sentences in the community and to use electronic devices to monitor their whereabouts have resulted in less than one-third of this number participating. And although the Ministry's goal was for 800 low-risk offenders serving their sentences on weekends to do so in the community, only about 100 were doing so as of August 2008.
- Despite changes in the type of inmates and increases in the overall number, the Ministry has made substantial progress in reducing the number and severity of security incidents in its correctional institutions. However, it needed to capture information on inmate-on-inmate assaults to allow it to report better on and be more proactive in minimizing such occurrences. The Ministry had also not carried out adequate formal assessments of different inmate supervision models even though it was planning to change its model; that change may significantly affect its operating costs and the health and safety of its staff and inmates.
- Although the Ministry had implemented processes for improving rehabilitation programs for offenders, institutions were not properly tracking participation and completion rates. There was also a general lack of information on work-related, rehabilitation, and other programs offered at institutions, and on the effectiveness of these programs in achieving intended behavioural changes in inmates. A new information-and-tracking system put in place in March 2008 should help to address some of these concerns.
- The Ministry has made progress in establishing programs for diverting inmates with mental disorders from the criminal justice system and thus from its correctional facilities. However, it did not have sufficient information on inmates' mental-health status and did not know whether it was providing adequate and appropriate treatment and care for the

inmates with mental illness and special needs. Although AIS's records indicated that only a small number of inmates were on waiting lists for specialized treatment, other research indicated that there could be hundreds of inmates with mental illness who are not being held in appropriate facilities and are not receiving proper treatment to deal with their needs.

- Inmates generally received a one-third reduction in their sentences (earned remission) without first undergoing a formal assessment—required by legislation—of whether they had followed prison rules for good behaviour and actively participated in rehabilitation programs. The Ministry advised us that, instead, the only circumstance in which earned remission was not granted was when an inmate had seriously violated prison rules and that this practice of applying earned remission was consistent with that of other provinces.
- AIS had neither adequate information nor rigorous detection practices to determine the extent and impact of the use of alcohol and illicit drugs in its facilities. Despite commitments following our last audit in 2000 to introduce random drug testing of inmates as part of the process of determining their entitlement to early release, the Ministry did not do so. Alberta Correctional Services and the Correctional Service of Canada both conduct random drug testing of their inmates.
- We noted that AIS continues to have a serious problem with the absenteeism of correctional officers, including the abuse of sick leave and overtime provisions, and has been ineffective in dealing with this problem. As of the end of 2007, the average number of sick days per correctional officer, based on an eight-hour day, was 32.5 days per year. As a result, AIS incurs almost $9 million in additional costs for replacement workers and a further $11 million in overtime payments each year. For instance, the absenteeism issue has resulted in some correctional officers making over $140,000 a year owing to overtime worked, which is more than double their annual salary.

We understand that the Ministry took a lead role in the formation of an interprovincial and territorial task force to study the changing characteristics of the adult inmate population and to identify opportunities to improve co-operation in the delivery of correctional services in Canada. We believe this is a good initiative that could help to address a number of the above issues.

Detailed Audit Observations

CHANGES IN INMATE POPULATION

In Canada, responsibility and costs for correctional services are divided between the federal and provincial or territorial governments. The federal Correctional Service of Canada (CSC) is responsible for offenders serving sentences of two years or longer. The provinces and territories are responsible for accused individuals remanded in custody—awaiting bail or trial—and offenders sentenced to terms of less than two years, including those serving their sentences in the community. The National Parole Board makes decisions regarding the conditional release of federal offenders and of provincial offenders in the provinces and territories that do not have their own parole boards. Ontario and Quebec have their own parole boards.

Like other provinces, Ontario has experienced significant change over the last decade in the number and type of offenders incarcerated. Incarceration levels in Ontario have increased 11% over this period, owing in part to an increase in policing and the laying of charges, and to changes in sentencing practices of the courts. During the same period, there has been a significant increase in the proportion of inmates who are remanded in custody versus those serving a sentence. Figure 1 shows that from 1997/98 to 2007/08, the proportion of all inmates

Figure 1: Change in Average Daily Adult Inmate Population in Ontario Provincial Correctional Institutions, 1997/98–2007/08

Source of data: Ministry of Community Safety and Correctional Services

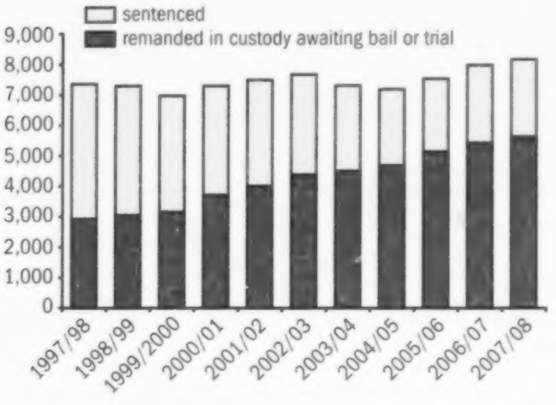
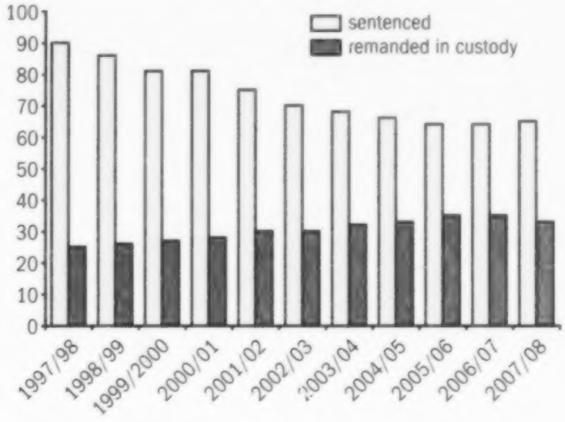


Figure 2: Average Duration of Incarceration for Adult Inmates in Ontario Provincial Correctional Institutions, 1997/98–2007/08 (days)

Source of data: Ministry of Community Safety and Correctional Services



who are remanded in custody awaiting bail or trial has almost doubled—from 40% to almost 70%.

This proportional increase in inmates remanded in custody has occurred in large part because of the increased time it has taken for courts to dispose of criminal cases. For instance, it took 165 days on average for courts to dispose of a criminal case in 1997; it took 205 days, or 24% longer, in 2007. Over the last 10 years, inmates remanded in custody have spent on average 30% more days in incarceration, while the average stay for sentenced inmates decreased by 28% (Figure 2).

In recent years, almost 80% of inmates have received sentences of three months or less, and over 50% have received sentences of one month or less. As well, courts in Ontario and across Canada have been providing additional credit for time served while remanded in custody prior to sentencing, usually crediting two—or sometimes even three—days toward the total sentence for each day spent in pre-sentencing incarceration. For instance, taking into account earned remission—which gives an inmate a one-third reduction in his or her sentence—a person sentenced to a one-year prison term who had already spent four months incarcerated before being sentenced would likely be released upon sentencing on the basis of the time already served. From an inmate's perspective, if he or she is expecting a guilty verdict, it is in his or her interest to maximize the time spent in remand, thereby reducing the total incarceration time. This is likely contributing to the increase in the proportion of inmates remanded in custody and the decrease in those serving a sentence.

These changes in the ratio of inmates remanded in custody to sentenced inmates and in length of stay significantly affect AIS's delivery of correctional services in several ways:

- The workload in provincial correctional institutions has increased because of the greater number of daily admissions and discharges for inmates remanded in custody. Courts have further increased the number of intakes and discharges for these inmates because the number of court appearances it takes to dispose of a case increased 50%—to 9.2 appearances on average—from 1997 to 2007. As well, because inmates remanded in custody include those with the most serious charges, such as murder, drug trafficking, or possession of illegal weapons, maximum security is required for these inmates.
- Correctional rehabilitation programs have traditionally been designed for and provided

to sentenced inmates. Because increased time spent remanded in custody reduces time spent under sentence, less time is available for sentenced inmates to receive treatment and attend rehabilitation programs. This creates a greater need for co-ordination and continuation with community-based programs following an inmate's discharge.

- Ten years ago, AIS had been planning for a gradual decrease in the number of inmates. Instead, increases in the number of inmates remanded in custody have meant that, even though new institutions have been built, AIS has not been able to decommission older, inefficient facilities that are more costly to operate. This has resulted in an increased average inmate *per diem* cost, which was the opposite of what AIS expected given the recent significant investments in infrastructure.

AIS provides inmates with programs for education, counselling, mental health, rehabilitation, and work experience. During our discussions, correctional staff raised concerns about the impact of the changes in the inmate population on AIS's ability to deliver rehabilitation programs in the same manner as in the past. For instance, its ability to fulfill its mandate of effecting positive change in offenders' attitudes may be hindered by shorter sentences. For inmates remanded in custody, the Ministry's efforts were primarily focused on "warehousing" them with little or no programming made available.

In addition, information we received from the Ministry indicates that recent inmates are a higher risk for violence than those incarcerated 10 years earlier: in 1997/98, AIS rated 21% of new inmates as either "very low" or "low" risk and 40% as "high" or "very high" risk; in 2006/07, AIS rated new inmates as 7% and 69% respectively—a 75% increase in higher-risk inmates. As well, there is a greater risk today of communicable and infectious diseases among inmates.

Some staff also suggested that the roles of the federal and the provincial or territorial governments in correctional services may also be outdated—particularly the division of responsibility based on whether a sentence is more or less than two years. This demarcation was particularly questioned in light of recent CSC reports that there is an increase in the proportion of shorter federal sentences. In 2006, more than 50% of new male offenders being admitted to federal penitentiaries were serving sentences of less than three years—a 62% increase from 1996/97.

At their November 2007 meeting, the federal, provincial, and territorial (FPT) ministers responsible for justice and public safety commissioned a study of the changing characteristics of the adult corrections population with the objectives of understanding the nature of these shifts and gaining insights into opportunities to jointly improve the effectiveness of the delivery of correctional services. However, the federal government decided not to participate in the study. The interprovincial task force established to conduct the study is mandated to make recommendations on how correctional services across Canada can be better aligned and delivered in order to optimize cross-jurisdictional infrastructure planning, program effectiveness, fiscal cost efficiencies, and community safety. The Ministry informed us that Ontario took a leading role in initiating this study and is providing ongoing resources to assist the task force. At the time of our audit, the task force was still at work; it expected to present an interim report to the FPT ministers of justice in September 2008.

RECOMMENDATION 1

In light of the changes that have occurred over the last decade in the type and number of offenders incarcerated in Ontario correctional institutions, the Ministry of Community Safety and Correctional Services should review the impact these changes have had on the traditional delivery of correctional programs, and review its mandate and existing operations to determine whether changes are needed in correctional program delivery and in the roles

and responsibilities of the provincial and federal governments. Ontario's involvement in a national study on the changing characteristics of the adult corrections population is a good first step in this regard.

MINISTRY RESPONSE

The Ministry is pleased to note the Auditor General recognizes the importance and magnitude of the changes that have had and continue to have a significant impact on Ontario's and other provinces' delivery of correctional services. These changes have presented significant challenges to the Ministry for some time, and have led to our providing the leadership and impetus for the federal, provincial, and territorial ministers' initiative known as the "Changing Face of Corrections." This initiative will thoroughly research and recommend changes that have the potential to significantly reform the management of correctional jurisdictions across the country in a way that has not been done since Confederation.

MANAGEMENT OF INSTITUTIONS

Operating Costs and the Former Adult Infrastructure Renewal Project

In our audit in 2000, we noted that the Ministry was implementing its Adult Infrastructure Renewal Project (AIRP) at that time. AIRP comprised capital projects to modernize adult correctional institutions, reduce their operating costs, and increase efficiency. It involved expanding and/or retrofitting existing institutions, building new correctional institutions, and decommissioning older, smaller, less efficient facilities. When AIRP was announced in 1996, the Ministry had 45 institutions in its correctional system. When AIRP was completed in 2006, over $400 million had been spent; 31 adult facilities had been identified for decommissioning, of which 18 had been closed; two new super jails and one new treatment centre had been constructed; three facilities had undergone substantial expansion and renovation; and three facilities had received security retrofits.

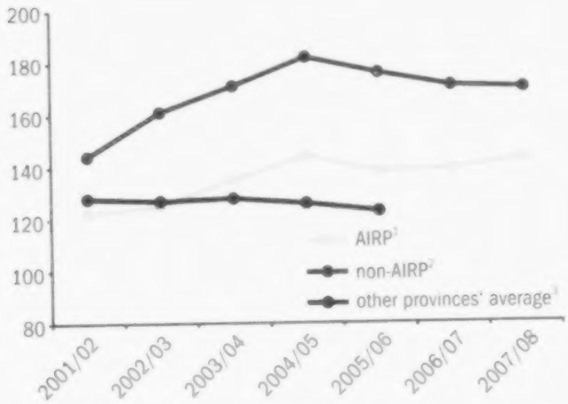
The Ministry's 1998/99 business plan noted that the province's adult incarceration cost was the highest of any province. It set a target to reverse this and achieve one of the lowest costs in Canada, with the plan to go from $120 per inmate per day in 1996 to $75 per inmate per day by 2003. Accordingly, over the past decade, AIS has focused on "no frills, strict and structured" discipline.

In our current audit, we assessed whether AIRP had achieved savings in operating costs and noted that the ambitious targets set in 1998/99 were not met. At the time of our audit, the Ministry advised us that it was unable to close the 13 remaining institutions that had been identified for decommissioning primarily because of unanticipated growth in the inmate population, especially those remanded in custody, as was shown in Figure 1. However, these 13 institutions account for only about 18% of all provincial inmates. When we considered only the institutions that had been built or retrofitted as part of AIRP, we found that the savings targeted by the Ministry did not come close to being achieved.

As part of our assessment, we compared operating costs in Ontario to those of five other provinces, each with more than 1,000 inmates: Alberta, British Columbia, Manitoba, Quebec, and Saskatchewan. We compared the average *per diem* operating cost per inmate for all of Ontario's correctional institutions with the average for the other five provinces. We also looked specifically at the average operating costs of eight institutions that had been newly constructed, expanded, and/or retrofitted under AIRP. These eight AIRP institutions account for over 60% of all provincial inmates. We did not include any of Ontario's three treatment facilities for inmates with mental disorders and special needs because the other provinces did not have such specialized facilities as part of their correctional programs. Figure 3 shows the *per diem* costs for AIRP institutions

Figure 3: Comparison of Trends in Average *Per Diem* Operating Costs per Inmate ($)

Source of data: Statistics Canada and Ministry of Community Safety and Correctional Services



1. average operating costs of eight institutions that had been newly constructed, expanded, and/or retrofitted under the Adult Infrastructure Renewal Project
2. all other Ontario correctional institutions
3. other provinces: Alberta, British Columbia, Manitoba, Quebec, Saskatchewan (for which data not available after 2005/06)

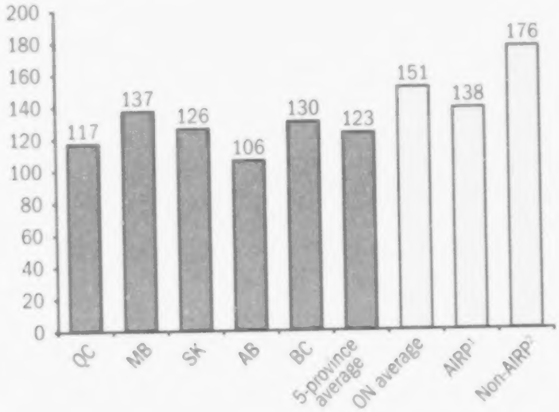
and all other correctional institutions in Ontario from 2001/02 to 2007/08, and the average of the five other provinces from 2001/02 to 2005/06, which was the last year for which information was available.

As Figure 3 illustrates, since 2004/05, the Ministry has had some success in curtailing its escalating operating costs. However, anticipated large reductions in overall operating costs as a result of the AIRP investments have not materialized. In comparison, during the four-year period ending 2005/06, other provinces on average have achieved small reductions in their operating costs.

Compared to other large provinces, Ontario still ranks highest in operating costs. As Figure 4 shows, this holds true even when we compare only AIRP institutions to other provinces. The Ministry's most economical facilities to operate are the two super jails built in 2001 and 2003. Inmate *per diem* operating costs at these institutions were $110 and $120 respectively in 2007/08, which was about 30% less than at the other AIRP institutions. These super jails operate at rates comparable to other provinces.

Figure 4: Inmate *Per Diem* Operating Costs in Six Provinces, 2005/06 ($)

Source of data: Statistics Canada and Ministry of Community Safety and Correctional Services



1. AIRP: average operating costs of eight Ontario institutions that had been newly constructed, expanded, and/or retrofitted under the Adult Infrastructure Renewal Project
2. all other Ontario correctional institutions

Staffing costs accounted for 78% of institutional expenditures in 2007/08. Ontario's super jails operate with about one-third less staff per inmate than all the other institutions. However, the Ministry informed us that inmate-to-staff ratios cannot be applied consistently to all Ontario institutions. Each institution has different staffing requirements, and the key differences at each institution affect staffing needs. These differences include the degree of automation, physical layout, level of security, and whether the facility houses a large number of inmates remanded in custody.

RECOMMENDATION 2

In order to ensure that Ontario correctional institutions operate economically and efficiently, the Ministry of Community Safety and Correctional Services should:

- research correctional services in other provinces and identify economical and efficient practices, such as less costly staffing models;
- conduct a study of operating costs in Ontario correctional facilities to identify opportunities

for reducing costs, including where intended savings from recent infrastructure investments were not achieved; and

- use this information to set realistic operating-cost targets for each institution and the correctional system as a whole, with a goal of achieving overall costs that compare more favourably to those of other provinces.

MINISTRY RESPONSE

The Ministry recognizes that, while significant savings were achieved in the operation of many correctional facilities, the overall anticipated savings from the AIRP initiatives fell short of their projected outcomes. We also recognize that operating costs for each institution will vary significantly depending on its age, size, and design/construction. While institutional *per diems* are commonly used as an intra- and inter-jurisdictional and institutional comparative measure, these other factors need to be considered in making direct comparisons. As well, given the size, scope, and complexity of Ontario's correctional services, Ontario compares favourably with the Correctional Service of Canada, although there are differences in operation.

The Ministry maintains membership in Heads of Corrections and other federal, provincial, and territorial partnerships through which information on the business of corrections is exchanged, reviewed, and researched. The Ministry will continue to seek the experience of correctional colleagues in other jurisdictions regarding staffing models and other areas of correctional administration with a view to implementing changes that will reduce overall operating costs.

The Ministry has and continues to strive for meaningful ways to reduce overall operating costs. We agree to undertake a study of operating costs in correctional institutions and any cost-saving practices in other correctional jurisdictions to identify any opportunities to further reduce costs.

The Ministry agrees on the need to set appropriate operating-cost targets for institutions and move toward a more favourable comparison to other jurisdictions.

Institutional Capacity

Under the *Ministry of Correctional Services Act*, the Ministry is required to provide for the custody of persons awaiting trial or convicted of offences. It does not have control over the number of accused persons remanded in custody or sentenced offenders it receives, and it has only nominal control over the length of time sentenced inmates remain in its institutions, such as by the right to grant early release for earned remission.

As previously mentioned, the Ministry did not foresee the dramatic changes that have occurred in the past decade that affect its institutional capacity. Given that the average inmate count decreased 6% from 1996/97 to 1999/2000, the Ministry anticipated savings from a continuing reduction in inmates. Instead, from 1997/98 to 2007/08, the overall number of inmates grew 11%. The percentage of inmates remanded in custody increased 93%, thus putting additional pressures on institutions because inmates remanded in custody are all jailed to a maximum-security standard and require more frequent intakes and discharges, such as for court appearances. New, expanded, and retrofitted facilities funded under AIRP were intended to replace smaller facilities and not to add new capacity. However, the Ministry could not both increase the number of inmates it holds and close institutions. As noted earlier, 13 facilities that had been scheduled for decommissioning remained open as of March 31, 2008.

In 2004/05, the Ministry embarked on a transformation strategy. Under the strategy, it planned to eliminate 2,000 institutional beds by 2007/08, thereby saving more than $60 million per year. The plan required the diversion of incarcerated offenders from correctional facilities to community supervision through pre-charge, post-charge, and post-sentence diversion programs. Among these programs were ones intended to:

- divert the mentally ill to appropriate facilities and programs operated by the Ministry of Health and Long-Term Care before they enter the criminal justice system;
- work with the Ministry of the Attorney General through its courts to reduce the growing population of inmates remanded in custody and the length of time they spend in custody;
- move offenders serving intermittent sentences at correctional facilities on weekends to community-work programs supervised by AIS and community partners; and
- redirect eligible offenders who are serving sentences less than 90 days or are in the last 30 days of their sentence to a new community-reintegration program that provides supervision, intervention, work, and rehabilitation programs.

The diversion of offenders from institutions to the community required investment in community infrastructure and the support of other justice and health-sector ministries and stakeholders. As discussed in sections that follow, the Ministry was unable to achieve any substantial savings from these initiatives, and did not eliminate institutional beds. From 2004/05 to 2007/08, instead of declining by 2,000 as planned for, the daily number of inmates grew by almost 1,000.

During our current audit, Ontario's adult institutions were operating at 100% of overall capacity. Six facilities were operating at 95% to 100% of capacity, and 11 facilities were operating at 101% to 135% of capacity. Most of these 17 facilities are in the Ottawa-to-Windsor corridor and account for 80% of all correctional beds in Ontario facilities.

Pressures on capacity present many challenges for the Ministry, including:

- inadequate numbers of segregation cells and overcrowding, which impede the flexibility to manage inmates properly during extenuating circumstances, such as when large numbers of police arrests occur or when institutional disturbances or riots occur;
- increased risk of inmate disturbances or riots because of overcrowding;
- increased labour-relations issues, and health and safety concerns for staff and inmates;
- triple and quadruple bunking in jail cells designed for one or two inmates; and
- increased offender transportation costs and correctional staffing needs, since many offenders are transferred out of their regions to institutions with available beds.

At the time of our audit, two new facilities were approved to replace outdated and overcrowded facilities for inmates remanded in custody and to increase capacity in the Toronto and Windsor areas. The Ministry was also preparing a capacity plan for the next five to 15 years, but the plan was not yet complete. The Ministry now estimates that AIS's operational bed capacity will be 9,040 beds by 2010/11 when the two new facilities are constructed. However, it also predicts that provincial demand will be in excess of 11,000 beds at that time if all current federal and provincial justice initiatives evolve fully, such as Guns and Gangs, provincial and federal hiring of up to 3,500 additional police officers, and changes to the federal *Criminal Code* regarding court sentencing practices.

RECOMMENDATION 3

In order to ensure that the Ministry of Community Safety and Correctional Services can meet its legislative requirements for cost-effectively and safely incarcerating the current and projected number of offenders, the Ministry should:

- establish plans for forecasting short- and long-term demands for correctional institutions, with appropriate involvement from justice-sector stakeholders; and

- develop and implement effective strategies to meet expected demand both by freeing up bed capacity through alternative diversion measures—such as appropriate programs for the mentally ill, and community supervision and work programs— and, where necessary, by providing sufficient beds, including seeking appropriate approvals for a capital construction program to address expected shortfalls.

MINISTRY RESPONSE

The Ministry has been dealing with the impact of changes in the inmate population on both current operations and projected capacity requirements. For example, two major projects involve the construction and net new addition of approximately 1,000 beds to the system. In addition, the Ministry has completed a capacity-requirements study for the next 15 years and is in the process of obtaining approvals.

The Ministry will continue to work with stakeholders and other partners to find new and innovative ways to mitigate capacity pressures involving the mentally ill, including the use of community alternatives, while maintaining the necessary requirements for community safety and security.

The Ministry of Health and Long-Term Care, in conjunction with the Ministry, initiated a pre- and post-incarceration diversion/care program targeting mentally ill offenders. While it is early in its development, both ministries are hopeful this multi-million dollar initiative will reduce the numbers of mentally ill in our institutions, and will provide better care and community linkages for mentally ill inmates upon their release, should they be incarcerated.

Community Programs

Under the *Ministry of Correctional Services Act*, an inmate may be granted a temporary absence to participate in a work or rehabilitation program, or for medical or humanitarian reasons. Superintendents—that is, the heads of the institutions—have the authority to grant absences of up to 72 hours, and the Ontario Parole and Early Release Board can do so for longer periods. Temporary absences are granted to inmates who committed less serious crimes and typically include strict conditions. Electronic devices are most often used to determine that inmates granted leave are in specific approved locations at specific times.

In our 2000 audit we noted that temporary absences had decreased from 25,000 in 1991/92 to 4,000 in 1998/99, with temporary absences for employment decreasing from 3,500 per year to about 300, and absences for academic study or vocational training decreasing from 360 to 13. Our examination at that time showed that, over eight years, the program's success rate had remained constant at 97%, with only minor violations, such as missing a curfew. Ministry staff reported no cases of offenders having committed a serious crime while on temporary absence. Accordingly, we recommended that the Ministry make more effective use of its Temporary Absence Program because it had the potential to provide operational savings of as much as $50 million a year.

In our current audit, we noted that temporary absences for employment had decreased from 300 in 1998/99 to about 100 in 2007/08, and absences for academic study or vocational training continued to remain low as well. The Ministry indicated that, instead of promoting the Temporary Absence Program, it had introduced two community-based programs for reducing the number of inmates in its institutions: the Electronic Supervision Program and the Intermittent Community Work Program.

Electronic Supervision Program

Since 1996, the Ministry has operated an electronic monitoring program for inmates temporarily released from incarceration, with about 60 offenders on average participating in the program at any time. In 2003, the Ministry initiated the Electronic Supervision Program (ESP), with the goal of having 1,000 to 1,300 offenders at any one time serve their sentences in the community while being electronically monitored. The Ministry anticipated that electronic monitoring would permit the courts to grant more conditional sentences and the Ontario Parole and Early Release Board to parole more offenders. In addition, the ESP was to allow monitoring of temporary absences from correctional institutions and of inmates working in the Ministry's new Intermittent Community Work Program. In January 2003, the Ministry contracted a private-sector firm to provide electronic monitoring of a guaranteed minimum of 650 offenders for about $1.4 million annually.

During our current audit, we were informed that use of the ESP has not achieved expected volumes. As Figure 5 indicates, as of August 2008, only 327 offenders were in the ESP.

The Ministry surveyed other Canadian provinces and found that low rates of electronic supervision also prevailed outside of Ontario. During our visits to Alberta and British Columbia, we noted that participation in these provinces involved only about 20 and 130 inmates respectively. Indeed, senior management in the two provinces we visited told us that electronic supervision was appropriate only in very strict and limited circumstances.

Figure 5: Offenders in the Electronic Supervision Program (ESP) as of August 22, 2008

Source of data: Ministry of Community Safety and Correctional Services

Source of Placement in ESP	# of Participants
court-ordered conditional sentences	215
Ontario parole	4
AIS temporary absences	4
AIS Intermittent Community Work Program	104
Total	**327**

Intermittent Community Work Program

Under the *Criminal Code* of Canada, a court may order that a sentence not exceeding 90 days be served intermittently. Offenders generally serve intermittent sentences on weekends, thereby being able to continue their employment. Intermittent sentences pose a significant challenge for AIS in running its institutions efficiently because it must make available about 550 beds on weekends, thus having about 6% of its beds mostly vacant on weekdays. In addition, AIS incurs significant costs for transporting many of these offenders to remote correctional institutions from central locations, and for paying correctional staff to handle the large numbers of admittances and discharges on weekends. At one institution we visited, 192 beds out of a total capacity of 1,130 were reserved for offenders serving intermittent sentences. To reduce the risk of contraband items entering the institution, AIS does not permit offenders serving intermittent sentences to interact with other inmates, a rule which further limits its options for accommodating them. AIS estimates that such offenders cost about $16 million annually, not including the cost of maintaining underutilized facilities on weekdays. Senior management in Alberta also told us that its comparable program faces these kinds of complications.

In July 2005, the Ministry initiated the Intermittent Community Work Program (ICWP), which gives low-risk offenders the opportunity to serve most of their intermittent sentences in community-work programs and substance-abuse programs, and to be under house arrest at other times. Offenders are required to volunteer for the ICWP, follow strict conditions, and participate effectively in programs, and most are required to have their whereabouts monitored for compliance under the Electronic Supervision Program. The Ministry established agreements with two not-for-profit community groups to provide programs, including work projects with a focus on environmental clean-up, maintenance and repair of not-for-profit community facilities, and assistance for seniors and persons with disabilities, as well as a substance-abuse program.

The average *per diem* cost was estimated at $27 to $35, compared to about $150 for incarceration in correctional institutions. The program was to be implemented in three phases, with a goal of 800 offenders participating weekly by the end of 2006.

In August 2008, we noted that only about 100 offenders were participating in the ICWP at that time. Correctional staff at several institutions we visited informed us that they believe offenders, having worked on weekdays, generally preferred to use the weekends to rest in correctional institutions rather than to volunteer for community-work programs. At the time of our audit, the Ministry had identified several incentives to encourage greater participation in the ICWP that it planned to introduce during fall 2008.

RECOMMENDATION 4

In order to achieve operational efficiencies and cost savings for managing its correctional institutions, the Ministry of Community Safety and Correctional Services should re-evaluate its community-based programs for their design and support by stakeholders to identify more effective means of achieving desired offender-participation rates.

MINISTRY RESPONSE

The Ministry has already taken steps regarding increased participation in the Intermittent Community Work Program (ICWP) and will continue to seek the support for and evaluate the design of community-based programs that meet the needs of our offenders, our operation, and justice-sector stakeholders, and the requirements for community safety and security.

The Ministry intends to research and, where applicable and appropriate, implement an expanded use of the Electronic Surveillance Program already utilized with the ICWP and other programs.

Institutional Security

To protect inmates, staff, and the public, the Ministry has extensive security policies and procedures in place to reduce escapes, suicides, and other critical incidents in its correctional institutions. In our audit in 2000, we noted that 30 escapes and nine suicides had occurred during the 1998/99 fiscal year—the most in the previous decade. In our current audit, we found that although there has been an increase in the daily average number of inmates, the Ministry has made substantial progress in reducing the number of security incidents (Figure 6).

Inmate-on-inmate Assaults

While AIS tracks the number of inmate-on-staff assaults, it does not require institutions to track the number of inmate-on-inmate assaults. Some institutions we visited did record some information related to inmate-on-inmate assaults, but the data was not assessed. They therefore could not determine whether additional interventions and management practices should be adopted.

Even when such information was recorded, the accuracy and completeness of the records are difficult to assess. For instance, the aggressor is not always known or reported, victims do not always report assaults, and reported injuries may be falsely attributed to other causes. Of 180 such incidents recorded at one institution in 2007, 119 were reported as "aggressor known," 36 as "aggressor not known or reported," and 25 as "the victim was taken to hospital."

The monitoring and reporting of inmate-on-inmate assaults by all institutions would provide a further measure for assessing how well institutions are managing their inmate population and security. It would give institutions some insight, for example, as to whether efforts to match compatible inmates cohabiting in cell pods are effective, and whether anger-management programs are having an immediate and positive effect. Such reporting would also help identify best practices in inmate supervision

Figure 6: Security Incidents in Ontario Adult Correctional Institutions, 2001–2007

Source of data: Ministry of Community Safety and Correctional Services

Incident Type	2001	2002	2003	2004	2005	2006	2007
escapes while in custody	13	17	1	5	2	1	2
suicide	3	3	3	4	6	6	5
attempted suicide	86	75	79	66	45	66	50
improper release from custody	49	29	39	19	14	25	13
inmate assault on staff	n/a[1]	n/a[1]	157	159	135[2]	127[2]	107[2]
ICIT and CET activation days[3]	n/a[1]	n/a[1]	n/a[1]	79	41	39	65

1. data not available from Ministry
2. In 2005, the Ministry began recording verbal abuse, threats, and attempts to injure. We have removed them to allow for comparison to prior years.
3. The Ministry tracks the number of serious disturbances caused by inmates that result in the deployment of the Institutional Crisis Intervention Teams (ICIT) or Cell Extraction Teams (CET), which comprise specially trained correctional officers at each institution.

to be shared among institutions. We noted that the Correctional Service of Canada, some US states, and New Zealand report publicly on inmate-on-inmate assaults.

Compliance with Security Requirements

As part of its efforts to improve security in its institutions, AIS conducts annual internal reviews of each institution's compliance with security policies and procedures, and summarizes the results for management purposes. The superintendent of each institution is responsible for implementing action plans resulting from these reviews. For reviews conducted in 2006/07, more than 50% of all institutions were found not compliant with several security policies and required procedures. The breaches included failure to maintain institutional logs and daily inspection reports, document the required periodic checks on suicidal inmates, meet search requirements of correctional vehicles, conduct minimum daily searches, and document daily tests of radio communications systems and emergency gates and doors. Although some of these breaches could be treated as minor deviations under the circumstances, the importance of abiding by security requirements is too often realized after a major incident occurs.

Four issues in the 2006/07 reviews warranted particular attention because they were repeat violations from the three previous years. One of the more significant was that minimum daily search requirements were not being met for exercise yards and segregation areas. Although the 2007/08 review results had not been compiled at the time of our audit, we noted that several institutions we visited were still not compliant in the four areas.

Inmate Supervision Model

Over 60% of all inmates are now housed in modern facilities, including the super jails, that were newly built or retrofitted as part of the Adult Infrastructural Renewal Project. Certain design changes inherent in these newer institutions also contribute to improved security. These design changes include the placement of recreation areas within interior walls instead of within the exterior perimeter fences, more restricted inmate movement within facilities, better surveillance within institutions, automated locks, and improved security over intake and discharge areas—all of which help to limit opportunities for escape and improve supervision over inmates.

Ontario's new, expanded, or retrofitted correctional institutions use an indirect supervision model, meaning that correctional officers remain outside of cell units in centrally located observation posts. They communicate with inmates through physical barriers or by intercom, and monitor inmates' behaviour through glass or by video surveillance. These highly automated facilities require at least one-third less correctional officers than Ontario's older, fewer efficiently designed institutions to achieve the desired levels of security.

Many other jurisdictions, including Alberta and British Columbia, use a direct-supervision model that requires correctional officers to be stationed inside cell areas, with no physical barriers between the correctional officer and inmates. Officers interact with and observe inmates throughout their work shift, a practice which helps not only to monitor inmates' behaviour but also to manage it. New facilities with low operating costs can also be designed to use this direct-supervision model. Alberta and British Columbia, for instance, have reported lower *per diem* operating costs than Ontario and a good record of security, although a more extensive analysis would be needed before a definitive comparison could be made with Ontario.

AIS senior management informed us that all new correctional facilities in Ontario will operate on the direct supervision model: at the time of our audit, two new large detention centres were planned to be completed within the next three years. In view of Ontario's recent success in reducing security incidents through the use of more modern facilities and the indirect method of supervision in super jails, we expected the Ministry to have conducted a formal study of the advantages and disadvantages of various supervision models before deciding to move to the direct-supervision model. These studies would need to include financial, operational, health and safety, security, and other considerations. For example, as mentioned earlier, given that recent inmates are assessed as being more violent and a higher risk of communicable and infectious diseases than 10 years ago, it may be more desirable to continue to limit the amount of interaction among staff and inmates from a health and safety perspective.

Nonetheless, the Ministry conducted no such formal studies to support this management decision or the reasons for it. Even though there may be solid reasons for the change to the direct-supervision model, we believe that such a decision could significantly affect the Ministry both financially and operationally, and should therefore be supported by comprehensive cost-benefit analyses of the various options.

RECOMMENDATION 5

In order to ensure that Ontario's correctional facilities are managed safely and cost-effectively, the Ministry of Community Safety and Correctional Services should:

- track and report on incidents of inmate-on-inmate assaults and use this information to identify best practices at better-performing institutions that can be shared with other institutions;
- investigate the reasons for non-compliance with security policies and procedures in institutions and determine what further action is needed to address institutions that have recurring non-compliance issues; and
- conduct a formal analysis of the different inmate-supervision models with respect to financial, operational, health and safety, security, and other considerations, and use this information to support its decisions on the appropriate type or types of supervision models to be used in existing and any new institutions in Ontario.

MINISTRY RESPONSE

As the Auditor General notes, the Ministry's efforts to improve security and reduce the number of incidents in correctional institutions has achieved considerable success, and the Ministry welcomes suggestions for further improvements.

The Ministry agrees to develop and implement a better and more accurate system for the tracking of inmate-on-inmate assaults as a performance measure in order to develop and share best practices among institutions.

The Ministry regularly reviews all compliance audits and requires superintendents to develop action plans to remediate any shortfalls. The Ministry agrees to review those areas where recurring compliance issues exist.

The Ministry shares the Auditor General's concern that a shift in supervision models must be thoroughly researched and rationalized, and must account for financial, operational, health and safety, and security-related matters. Ontario has had some experience with the direct-supervision model over the last 35 years, and this model has shown many benefits over the existing "indirect"-supervision model currently utilized in most of our facilities. The two new-facility project teams have reviewed, evaluated, and researched the extensive body of literature available regarding the direct supervision model. A proposal for the use of direct supervision in these new facilities will be finalized shortly for review and approval by senior ministry officials. It is also worth noting that many jurisdictions in North America have moved to or are in the process of moving to this model of inmate supervision.

Meals

In our 2000 audit, we noted that the Ministry had not prepared a proper business case to assess needs and address risks and logistical requirements for a new food-processing facility it was developing that would prepare meals centrally for distribution to inmates at a number of institutions. The new facility uses a "cook-chill" food-processing system that prepares food to a "just done" state followed by rapid chilling. The meals are then transported to receiving institutions with specially installed kitchen equipment for reheating.

In January 2002, the Ministry entered into a public-private partnership agreement for the operation and maintenance of the cook-chill food production centre, located at the Maplehurst Correctional Complex. A one-year extension to the five-year contract was exercised in 2007, and it is expected that the total contract value at expiry on March 31, 2009, will be $54.8 million. Cook-chill production currently serves about 46% of all meals provided to inmates.

Although the Ministry has completed a quality-assurance review of the operations of the facility, at the time of our audit, it had not completed an assessment of whether the cost savings originally anticipated were achieved in food costs, staffing, and kitchen equipment. It informed us that a review was under way and that, on the basis of the results, it would develop a future strategy.

At five institutions we visited with a total of over 4,000 inmates, one prepared its meals locally while the other four ordered meals from the cook-chill facility. All five institutions maintained extra meals in storage in case of unexpected shortfalls, thus they could order or prepare only the number of meals required for their inmates on that day. We assessed the number of meals served for periods during our audit in relation to the number of inmates and found a significant number of excess meals that local management could not explain. While one institution was able to serve the same number of meals as the actual number of inmates, the other four institutions served between 4% and 11% more meals daily than needed. Excess meals that leave the kitchens are not recoverable for health and safety reasons. In 2007/08, AIS spent on average about $11.60 per day to feed each inmate. We calculate that if these four institutions alone implemented better controls over the number of meals served, they would save over $700,000 annually.

RECOMMENDATION 6

In order to achieve cost savings relating to inmate meal costs, the Ministry of Community Safety and Correction Services should:

- **perform a cost-benefit analysis of the current outsourcing of its "cook-chill"** food-preparation facility and ensure that appropriate competitive tendering procedures are taken when the current contract expires in March 2009; and

- investigate why an excessive number of meals are being served at certain institutions and take corrective action.

MINISTRY RESPONSE

As noted by the Auditor General, the Ministry has already commissioned an intensive and thorough evaluation of the cook chill method of inmate food preparation and distribution. The results are being reviewed by senior ministry staff. The Ministry will ensure that the vendor-selection process for any future cook-chill operations follows established competitive tendering requirements.

The Ministry recognizes that there will be a level of discrepancy between actual meals served and inmate counts on any given day. Inmate counts fluctuate throughout a given day and from one day to the next. Food ordering, particularly in cook-chill operations, must occur well in advance of the day the meal is to be served. The possibility of being short of food for a given meal has the potential of creating inmate unrest; as a result, food service staff may err on the high side of the number of meals they will need at any given time. Notwithstanding the above, the Ministry agrees to undertake a review and implement appropriate remediation where any discrepancies appear excessive.

Offender Tracking Information System

The Offender Tracking Information System (OTIS) records the status of offenders in the institutions from the time of admission to the time of release, and also those of offenders released on parole. OTIS also identifies inmates about to be released so that, where required, victims of the offender can be notified of the impending release. We reviewed key aspects of OTIS, including business-continuity planning, disaster recovery, and access controls.

A province-wide failure of OTIS occurred during our audit; it lasted from February 14 to 17, 2008. Ministry staff declared the outage a "disaster" on February 15. During the outage, business-continuity plans permitted AIS to carry on at each institution its business of admissions, discharges, and co-ordination of inmates' court appearances. We found no interruption of institutional activities on account of the outage.

We reviewed access permissions to OTIS and found them to be adequate to ensure that only current employees could access the system for uses appropriate to their business needs.

MANAGEMENT OF INMATES

Correctional Programming

The *Ministry of Correctional Services Act* mandates that the Ministry create programs for inmates designed to assist in their rehabilitation and to afford them opportunities for successful personal and social adjustment in the community and for the prevention of crime. A regulation to the Act requires every inmate to perform work in the institution and participate in any institutional program to which the inmate is assigned unless he or she is medically exempt from performing the work or participating in the program.

Programs offered by institutions focus on one or more of what are referred to as "criminogenic factors"—that is, the factors that produce or tend to produce crime or criminality. These factors include anger, sexual offending, partner abuse, and substance use. Programs include introductory orientation programs for sentenced and remanded inmates; intensive rehabilitation programs matched to the needs of higher-risk sentenced offenders; and specialized client-focused rehabilitative programs offered in selected institutions for sentenced offenders with special needs and/or serious mental illness, or who have committed more serious offences. Other types of programming offered to inmates include those for recreation, spirituality, Aboriginal culture, formal education, and work or industrial training. In addition, there may be volunteer-delivered programming from community organizations.

In our 2000 audit, we recommended that the needs of offenders be properly assessed and addressed through the provision of appropriate programs, and that the effectiveness of correctional programs be evaluated in a timely manner. In our current audit, we found that the Ministry had initiated processes for improving its programming, such as introducing in 2002 an internal accreditation program for its core programs. However, programs were not offered consistently across Ontario's institutions and the accreditation program was not fully established. In addition, the Ministry was not properly tracking participation and completion rates. Overall, information was generally lacking on the work and programs offered at institutions, inmates' participation and completion rates, and the quality of these programs and the extent to which they achieved their intended outcomes.

Comparison of Programs between Institutions

We reviewed the programming available at five institutions that we visited and found that each of the institutions offered significantly different programs, with little documented rationale for the inconsistencies. All five offered various work-related and community-volunteer programs, and three offered industrial-training programs. One correctional centre did not offer any of the Ministry's core programs; instead, it had established its own programs. Three institutions offered some, but not all, core programs to both its sentenced inmates and inmates remanded in custody. A fifth institution, which held inmates remanded in custody, did not offer any core programs despite having staff trained to do so.

Inmate Participation In and Completion of Programs

At three institutions, we assessed whether inmates completed their programs. One institution was unable to provide us with this information: it indicated that compiling the information would be onerous and would require the reviewing of daily attendance records for each inmate and program. At another correctional centre, we looked at a sample of 10 inmates and found that they had made 26 requests to attend programs, started 15 programs, and completed 13. At the third correctional centre, because attendance records were not kept properly following the discharge of inmates, we sampled 10 inmates who were still at the institution. A committee had recommended that these 10 inmates take 33 programs. At the time of our audit, the inmates had completed 12 programs and five were still in progress.

We were informed that factors preventing inmates from attending or completing programs included shorter sentences and waiting lists for acceptance into programs. Average sentence lengths have decreased about 30% over the last 10 years, and, in recent years, almost 80% of inmates received sentences of three months or less, and over 50% received sentences of one month or less. However, many of the core multi-session programs offered by the Ministry required five to 20 weekly sessions to complete. Owing to shorter sentences, these programs would be unavailable to the majority of sentenced inmates—and would be even less applicable to the 70% of inmates who are remanded in custody.

Core Programs Accreditation

For institutions to obtain the Ministry's internal accreditation for a program, they must submit program details and training manuals to head office for technical evaluation. The Ministry's accreditation committee may then grant provisional approval to the program, after which it is subject to a two-year probationary period for data collection and evaluation of program effectiveness. The evaluation then determines whether full accreditation is granted, the program requires revision, or no accreditation is granted.

The Ministry's intranet lists 37 core programs offered at its institutions. However, we found that none of the programs had been fully accredited; 27 had been submitted for review, of which 19 had received provisional accreditation. Most of the programs that had received provisional accreditation did so in 2003, yet there was no indication when these core programs would be assessed for full accreditation even though five years had passed.

We also noted that the Ministry and its institutions had made no significant efforts to collaborate on programs with other provinces or internationally. In our visits to Alberta and British Columbia, we noted that they had developed programs for their inmates. Ontario might benefit from sharing information with them, which would be a cost-effective means of improving Ontario's correctional programs.

Information on Programs

Of the five institutions we visited, most had inadequate records and statistics on their programs and participation in them, as well as on work-related and industrial-training programs. None was able to provide us with information on the effectiveness of its programs. Only one institution provided us with monthly summary reports that tracked inmate attendance, average inmate attendance by program type, and the number of inmates completing courses. The reasons for program cancellations, such as prison lockdowns, were also tracked. This institution also sets performance goals for its inmates, requiring them to participate in a minimum of 20 hours of programs per week.

The Ministry's head office also had little information on program availability and participation at its institutions. Its attempts to survey institutions in 2005 proved unsuccessful because of inadequate staff resources to complete the task and lack of participation by some institutions.

As of March 30, 2008, the Ministry implemented an enhancement to its Offender Tracking Information System (OTIS) to begin recording and tracking program offerings and inmate participation in programs. The information system was to include information on programs at each institution and available from probation and parole offices. Its implementation allows staff in institutions and parole officers to see what programs inmates have taken and what programs in the community are available, so that a discharged offender on probation may continue his or her programs after being released into the community.

RECOMMENDATION 7

In order to ensure that correctional rehabilitation programs are delivered consistently, of sufficient quality, and are effective, the Ministry of Community Safety and Correctional Services should:

- **gather the necessary information on all its programs offered to inmates to allow for institutional and province-wide assessment of their availability, participation rates, quality, and level of success in achieving their intended outcomes; and**
- **research programs offered in other jurisdictions as a cost-effective means of identifying programming best practices given the trend to shorter sentences and the large proportion of the inmate population remanded in custody while awaiting bail or trial.**

MINISTRY RESPONSE

In recent years the Ministry has adopted an evidence-based "core program" paradigm that targets and attempts to remediate specific criminogenic factors. The Ministry is in the process of developing and finalizing a program inventory and has already implemented a new module in OTIS, which will provide the data necessary to assess the elements noted in the recommendation. The Ministry will be reviewing its core-programs accreditation process and institutions' use of core programs to ensure that rehabilitation and other programs in adult institutions are consistently offered, meet quality standards, and achieve intended outcomes.

The Ministry will continue to review, update, and revise its program-delivery systems through literature research and inter-jurisdictional review and make changes as appropriate that reflect best principles and practices.

Inmates with Mental Illness and Special Needs

In our audits of 1993 and 2000, we noted the Ministry reported that an estimated 15% to 20% of inmates require some form of clinical intervention for mental disorders, and that many inmates should be in specialized-care facilities rather than correctional institutions, which were not appropriately staffed to handle inmates with mental disorders. In 2000, we recommended the Ministry expedite its efforts to establish treatment facilities and diversion measures for these inmates.

In our current audit, we noted that the Ministry has made some progress in managing inmates with severe mental disorders. A new 100-bed secure treatment unit (STU) was completed in 2003 in eastern Ontario. The STU annually treats about 250 male offenders who have severe mental-health conditions, such as schizophrenia, bipolar disorder, dementia, and other serious personality disorders. All correctional institutions across Ontario refer sentenced offenders with acute mental-health problems to the STU.

The Ministry has also made progress in its efforts to divert inmates with mental illness. In 2005, the Ministry established an initiative to investigate means to divert mentally ill persons from entering the criminal justice system, and to address the needs of mentally ill persons discharged from correctional institutions. The Ministry has been working with the Ministry of Health and Long-Term Care (MOHLTC) and other ministries on diversion and post-sentencing assistance, such as discharge planning for offenders with mental illness who have not committed serious crimes. From 2005 to 2007, the MOHLTC provided $50 million to community groups and court support groups for outreach or intervention for persons with mental illness at risk of or having offended.

Notwithstanding the Ministry's progress, we still have concerns that many inmates with mental-health conditions are not getting appropriate treatment and the number of inmates needing care is significantly greater than AIS's existing capacity. The Ministry had little information on the number of inmates with mental illness and how it addresses their needs. The MOHLTC funded a study to determine the prevalence and nature of psychiatric-care needs of adult inmates in correctional institutions. The study examined OTIS inmate records and about 1,200 inmate on-site records, and interviewed over 500 inmates, nurses, and correctional staff between June 2005 and August 2007. The study resulted in several findings, including the following:

- Correctional files yielded very little information that could be used to determine inmates' mental-health status.
- Thirty-six percent of the inmates had a past or current psychiatric diagnosis.
- Thirty-two percent of inmates had a history of at least one psychiatric admission, including 14.5% with an admission within the last two years. For the latter group, almost 60% had had a psychiatric diagnosis for a serious mental illness.

The researchers estimated that of the 8,500 inmates at the time, between 485 and 1,250 possibly suffered from a serious mental illness.

We noted that there were only a limited number of specialized treatment beds available in the province to handle inmates with mental-health disorders, such as psychosis, anxiety disorders, depression, suicidal tendencies, and developmental challenges.

In 2005, the Ministry cancelled a 300-bed correctional treatment unit that was to be built at the STU site in eastern Ontario and another 50-bed treatment facility in northern Ontario. An existing 190-bed treatment centre located in the Greater Toronto Area that specializes in treating violent and sexual offenders was originally scheduled to close but will remain open. No changes were planned for an existing 56-bed facility in Northern Ontario that offered specialized treatment programs.

AIS does not separately track the number of inmates with mental illness, but instead records the number of inmates with special needs. Inmates with special needs could include those with mental illness as well as those with physicial disabilities and medical illnesses.

Although AIS records indicate there were only 365 special needs inmates in all its correctional facilities, several institutions we visited had identified a need for a dedicated special-needs unit, but did not have one. These correctional institutions were not designed or appropriately staffed for large numbers of mentally ill inmates or inmates with special needs. For example, during our audit, management at one large institution we visited with about 1,100 inmates was requesting approval from head office to build a 190-bed special-needs unit at its facility. The institution noted that about 270 of its inmates were candidates for the proposed special-needs unit. Another large institution was forced to abandon its segregated special-needs unit because the space was needed to respond to overcrowding.

Special-needs units adopt more structured, client-focused treatment plans, programs, and therapy for offenders and are operated by specially trained correctional and professional staff. In these units, the progress of inmates with special needs is measured better and in treatment they are better able to cope with their correctional environment, less likely to exhibit disruptive behaviour, and less likely to jeopardize the safety and security of staff and other inmates. We were informed that although psychiatric care is available at almost all institutions, those without special-needs units generally provided a lower level of nursing, medical, and psychological care than would be available in a specialized unit. In these institutions, special-needs inmates who cannot be placed with the general population of inmates were typically placed in segregation units, which are generally intended to be used by inmates who need to be isolated from other inmates and staff for behavioural reasons, rather than because of special needs. Although the cells in the segregation units were supposed to hold one inmate each, in some cases, inmates were double-bunked in their cells because of overcrowding. AIS's records indicate that about 500 inmates were in segregation units; our observations during our visits and discussions with institutional staff suggest that many of these inmates were in these cells owing to their special needs.

We asked AIS for its waiting lists of inmates to be treated at the STU and its other two treatment centres. Because the estimates in the MOHLTC study of the number of inmates requiring treatment were significantly higher than the number of treatment beds available, we were surprised to be informed by AIS management that there was only a 20-person waiting list for the STU and no waiting lists for the other institutions. However, medical and correctional staff we spoke to during our visits noted that the STU was designated for very severe cases and had stringent admission requirements; that may help explain the AIS's reluctance to put more inmates on the STU waiting list.

RECOMMENDATION 8

In order to ensure that inmates with mental illness and/or special needs who are not being treated elsewhere are provided with the appropriate levels of support and treatment, the Ministry of Community Safety and Correctional Services should:

- identify the necessary processes and resources to allow for proper assessments and identification of inmates' mental-health status and special needs;

- identify the need for specialized treatment units in each institution and province-wide to accommodate the estimated number of inmates requiring such treatment, and determine the short- and long-term options for meeting these needs;
- monitor and report on the identified needs of inmates with mental illness and/or special needs and the extent that AIS's facilities and programs for this group meet their needs.

MINISTRY RESPONSE

The Ministry uses a standardized process of sentenced-inmate assessment. As well, on admission, each inmate (sentenced or remanded in custody) is seen by our health-care staff and admissions staff. Based on staff observations and any historical or other data available on the new admission, inmates who are or may be mentally ill, have potential mental health issues, or may be "special-needs" are quickly identified. Inmates have access to psychiatric intervention through our health-care departments in almost all facilities in the province. The Ministry notes that the level of care needed by inmates with mental-heath issues or mental illness varies significantly, from those who only require regular medication to others requiring specialized clinical treatment care. The Ministry commissioned and is in the process of completing a research study led by a professor from Nipissing University that will assess and identify the extent of inmates with mental health issues or illness and provide the Ministry with a solid empirical foundation upon which to develop strategies and, if necessary, capacity to manage and effectively meet the needs of this group.

The Ministry recognizes the unique needs of special needs offenders and will continue to develop and implement strategies to effectively manage this segment of our population. We are developing and contemplating plans for additional units.

Earned Remission

The federal *Prisons and Reformatories Act* and the provincial *Ministry of Correctional Services Act* permit inmates to earn a half day of remission for each day served. For example, an inmate serving a 90-day sentence could be released after 60 days, having earned remission of fifteen days for each of the first two months served. The provincial Act stipulates that to earn remission, inmates must obey prison rules and conditions governing temporary absences, and must actively participate in programs designed to promote inmates' rehabilitation and reintegration. The Ministry's public website says that to earn the privilege of early release, inmates must actively participate in work, skills or trades training, education, community-service, rehabilitative, and treatment programs, and must abide by institutional rules and standards for positive behaviour, including zero tolerance for acts of violence. If they fail to do so, inmates will not earn remission and will lose remission already earned.

The website also states that each correctional institution will establish an Earned Remission Committee, which is responsible for reviewing, verifying, and signing off on remission earned by inmates. However, we were informed that only one institution had an Earned Remission Committee that had carried out its function. Management at one large institution we visited that did not have an Earned Remission Committee told us that all inmates receive earned remission by default—including the 24 inmates at the institution who refused to participate in any work or rehabilitation programs—and that earned remission would be decreased only if the inmate seriously violated prison rules. Both of the two provinces we visited permitted inmates to earn remission by default and, similarly to Ontario, reviewed and decreased earned remission for inmates solely on the basis of incidents of serious violation of prison rules. The Ministry's correctional senior management advised us that its current process of reviewing earned remission only for troublesome inmates was consistent with earned-remission practices in other jurisdictions.

RECOMMENDATION 9

To ensure that the Ministry of Community Safety and Correctional Services complies with legislated requirements for granting earned remission to inmates, it should either:

- establish processes at all institutions to assess inmates' conduct and participation in work and rehabilitation programs in order to determine whether inmates are entitled to reduced sentences; or
- request and obtain amendments to the *Ministry of Correctional Services Act* with respect to the requirements for earning remission and update the Ministry's website to reflect current practices.

MINISTRY RESPONSE

As the Auditor General notes, the Ministry utilizes a "default" model for managing earned remission. Inmates who abide by institutional rules and expectations, do not receive misconducts, participate as expected in maintenance of their environments, and contribute to the stability of the correctional environment, including work and program participation where available, earn remission and satisfy the intent of the provision in the Act. We continue to ensure that earned remission is revoked through the misconduct processes where required.

The Ministry is taking steps to make certain that our procedures ensure full compliance with our legislative requirements and introduce changes where incongruence may exist.

Detection of and Reporting on Alcohol and Illicit Drug Use in Correctional Facilities

Alcohol and illicit drug use and trafficking are major factors influencing the ability of correctional institutions' management to provide a safe environment for staff and offenders. Illicit drugs in institutions contribute to increased inmate violence, an organized drug trade, and poor health, and they undermine programs for inmates' rehabilitation and reintegration into the community. Moreover, approximately 80% of offenders used alcohol or narcotics on the day they committed their offence, and although those offenders do not all have serious substance-abuse problems, the Ministry identifies substance use as a critical factor that contributes to many inmates re-offending. Although correctional staff try to detect and prevent illicit drugs from entering institutions, drug use in correctional facilities occurs.

Anecdotal remarks from correctional staff we spoke to generally suggested that they do not believe that illicit drugs pose a significant problem in their facilities. However, we could not conclude if this is accurate because the Ministry's information systems were inadequate to report on illicit drug use, and AIS does not routinely randomly test inmates for alcohol and illicit drug use, unlike some other jurisdictions.

OTIS could not provide adequate reporting on the detection of illicit drugs in institutions. For instance, the institutions we visited could not provide us with reports that summarize the number of illicit drug incidents resulting from their drug-detection efforts. This was because OTIS treated all detected contraband, regardless of its type, as an incident. AIS defines contraband as any unauthorized item that an inmate possesses. This broad definition of contraband could include such items as cigarettes, weapons, and mobile telephones, in addition to alcohol and illicit drugs.

The *Ministry of Correctional Services Act* permits testing for alcohol or other drugs when there are reasonable grounds to suspect use, as part of a random-selection substance-testing program, or as a requirement for participation in a program, such as a substance abuse program. However, we noted that AIS's efforts to detect illicit drugs did not include random drug testing of inmates. In 2001, the Ministry informed the Standing Committee on Public Accounts that it had plans to introduce random testing of inmates for drug and alcohol use.

The test results were to be used as part of its plans for introducing an Earned Remission Program, which would make inmates accountable by requiring them to earn their early release by actively participating in work and rehabilitation programs and complying with institutional rules. As previously noted, AIS has not established an effective earned remission program.

In addition, the Ministry indicated in its 2002 plans that a new performance reporting framework for its adult correctional institutions would include the incidence of positive random alcohol and drug tests as a key indicator of its performance. However, at the end of our current audit, the Ministry still had no plans to introduce such reporting.

We noted that Alberta Correctional Services and the Correctional Service of Canada (CSC) used random testing to detect the use of alcohol and illicit drugs. Alberta randomly tests about 2% of its inmates on a weekly basis and the CSC tests 5% monthly. The CSC has published several reports on the use of illicit drugs in its penitentiaries and the results of random drug testing of inmates. For instance:

- In 1993 when the CSC first introduced random tests, it found positive results in 30% of the inmates sampled. However, the rate of positive tests subsequently declined to about 12% or less in subsequent years.
- A survey of inmates in its Quebec facilities in 1995 found that 38% of respondents acknowledged that they had consumed narcotics in prison in the 30 days prior to the survey.
- The presence of opiates in samples from its maximum security institutions in Ontario increased to an average of 44% of all random tests in the 2002–04 period, up from 12% in the 1996–2001 period.

In addition, both Alberta Correctional Services and the CSC had drug-detecting dogs, which would allow for systematic surveillance and greater deterrence. In Ontario, AIS relies on the OPP for officers and dogs to conduct searches on an as-needed basis. However, we were advised that the OPP would be contacted only in situations where correctional officers strongly suspected that drugs were present.

Ontario does not have studies like those of the CSC on the issue of illicit drug use in provincial correctional institutions. Therefore, at two institutions we visited, we reviewed approximately 2,200 incident reports from 2007 and found that correctional officers had identified only 56 incidents of alcohol and illicit drug use. Without clinical means of detecting alcohol and drug use by inmates, correctional staff could only identify times when they actually found illicit drugs on inmates, visitors, or in the facilities.

RECOMMENDATION 10

In order to detect and report more effectively on the use of alcohol and illicit drugs in Ontario's correctional institutions and reduce the detrimental impact it has on institutional safety, inmate health, and rehabilitation programs, the Ministry of Community Safety and Correctional Services should:

- improve its information systems to capture and report better on the details and trends of such incidents that are detected in its institutions; and
- implement more rigorous detection practices, such as random testing of inmates, as is done in certain other Canadian jurisdictions, to detect and deter alcohol and illicit drug use.

MINISTRY RESPONSE

The Ministry agrees to refine its information-reporting-and-capture systems to more accurately identify incidents of illicit substance use and detection and to use that information to help identify trends and establish best practices to better address the issue.

The Ministry recognizes the potential risk that illicit substance abuse in our facilities poses for the safety of staff and inmates, and to inmates' health and rehabilitation. The Ministry already employs multiple measures to detect and prevent the introduction of such substances. For example, Ontario does not permit "open" or non-professional contact visits, which can be a significant point of entry for illicit substances and other contraband. However, by law, we are very restricted in the degree to which we can utilize invasive search techniques to detect, prevent, and remove illicit substances from our facilities. The Ministry will undertake a review and, where reasonable, legal, and practical, will implement more rigorous detection/prevention practices.

MANAGEMENT OF STAFF

Correctional Officer Absenteeism and Overtime Payments

In 1993 and 2000, we reported that the Ministry needed to strengthen its efforts to monitor sick leave by correctional officers and, where warranted, take appropriate corrective action. In our current audit, we noted that AIS has a serious problem with the absenteeism of correctional officers and has had little success in dealing with this problem. As a result, AIS incurs substantial costs for replacement workers and in overtime payments to correctional officers covering for absent officers. As well, when excessive absenteeism occurs, correctional institutions impose lockdowns to further restrict inmate movement, a practice which results in cancellations of health and rehabilitative programs for inmates.

AIS employs about 3,400 correctional officers to operate and secure its 31 correctional institutions on a 24-hour basis. For security reasons, correctional officers who are absent because of sickness or other reasons must be replaced immediately. In many cases, this requires paying substitute officers overtime at one-and-a-half times the hourly rate, in addition to paying the absent officers for the day of their sick leave. Moreover, more than 85% of correctional officers work 12-hour shifts instead of eight-hour shifts, so each sick day recorded by the Ministry is the equivalent of one-and-a-half days for staff working an eight-hour shift.

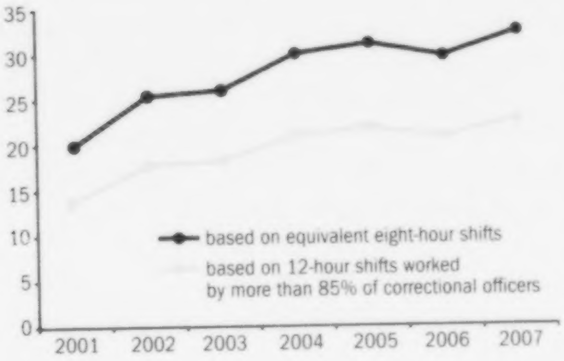
In 2000, we found that the average number of sick days for all institutions had increased 38%, from 11.7 days in 1995 to 16.1 days in 1998. At the time, superintendents told us that low staff morale contributed to poor attendance and that staff abused the system. The Ministry took several initiatives to curb absenteeism: individual attendance records were reviewed, a case management unit was established in each institution to oversee attendance, new tracking and reporting requirements were established for absenteeism, and the Ministry and the union representing correctional officers agreed to work together to address staff morale and attendance issues. In 1999, the Ministry introduced the Attendance Support Program, a government-wide requirement of the Management Board Secretariat for dealing with all employees with high absenteeism. The program, which lasts a minimum of 15 months, focuses on employment accommodation and assistance, and requires management to establish attendance goals and monitor attendance for staff who are absent 11.5 or more days per year. In our follow-up review in 2002, we noted that the Ministry had achieved a modest improvement in attendance: the average number of sick days per correctional officer had decreased to 14 days in 2001.

In our current audit, we found that absenteeism has worsened significantly among correctional officers since 2001. As Figure 7 shows, ministry records indicate that as of the end of 2007, taking into account the fact that more than 85% of correctional officers work 12-hour shifts, the average number of sick days per correctional officer was 22.8 per year based on a 12-hour day, or 32.5 days based on an equivalent eight-hour day. This is an increase of 63% since 2001.

The absenteeism rate varied significantly between correctional institutions, ranging from 8.7 days to 34.9 days based on a 12-hour shift. In the

Figure 7: Average Yearly Number of Sick Days for Correctional Officers, 2001–2007

Source of data: Ministry of Community Safety and Correctional Services



case of the institution with the highest absenteeism rate, in 2007 about 82% of its correctional officers exceeded 11.5 sick days.

According to the Attendance Support Program manual, the program is designed for "non-culpable absenteeism"—that is, sick days taken from work because of injury or illness. For "culpable absenteeism"—abuse of sick leave provisions involving deliberate misrepresentation or misuse of sick leave—disciplinary action is required. AIS staff at head office and in institutions told us there is chronic culpable absenteeism in their facilities and that existing programs were ineffective in dealing with it.

When institutions have insufficient staff present because of sick leaves, they cannot be operated normally owing to safety concerns. This results in lockdowns of all or part of the institution to restrict inmate movement and the cancellation of work and rehabilitation programs. During 2007, staff shortages resulted in 235 lockdowns at institutions for either partial or full days, and program-only cancellations on a further 62 days. Over 80% of these lockdowns occurred during either the weekends or the days before and after long weekends. The Ministry identified suspicious absences on the holiday weekend in October 2007. As Figure 8 indicates, at three institutions many staff called in sick on the Friday, Saturday, and Sunday; however, absenteeism dropped dramatically on Thanksgiving Monday—a day for which officers would have been paid twice their hourly rate in accordance with to their collective agreement.

Ministry staff also informed us that culpable absenteeism was used by correctional officers to increase their opportunities to earn overtime pay. For instance, officers who call in sick or request a leave of absence for the day can make themselves available for overtime on their days off. When correctional officers call in sick or are scheduled to take time off, institutions call in unclassified officers at regular rates to fill these vacancies. When there are not enough unclassified staff to fill vacancies, classified staff are contacted for replacement at overtime rates, following a priority calling system agreed upon with the union. This provides the opportunity for an officer to call in sick and use that day as a day off, then work at overtime rates on what would have been his or her regularly scheduled day off. In addition to the almost $9 million incurred for replacement workers, AIS incurred $11 million in 2007/08 for overtime payments to correctional officers owing to sick leave. We noted that a correctional officer working regular hours earns up to $60,000 per year. In 2007, more than 150 correctional officers, including 9% of all officers at one institution, earned more than $100,000 with overtime. Several correctional officers made over $140,000.

In the early 2000s, the Ministry constructed two nearly identical correctional facilities: one was operated under contract by a private company (the only one of its kind in Ontario) with newly hired staff; the other was publicly operated with correctional officers relocated from decommissioned facilities. At the end of the five-year contract with the private company, the Ministry decided to operate the facility publicly commencing November 2006. In the year following the transfer to public operation, the rate of absenteeism increased 55%. We were informed that the private operator allowed 10 sick days per year, after which an insurer would assess the employee for long-term

Figure 8: Absenteeism at Three Correctional Facilities during Thanksgiving Weekend, 2007

Source of data: Ministry of Community Safety and Correctional Services

	# of Correctional Officers Who Called In Sick					
Institution	Thurs. Oct. 4	Fri. Oct. 5	Sat. Oct. 6	Sun. Oct. 7	Mon. Oct. 8*	Tues. Oct. 9
1	16	27	23	21	**0**	16
2	27	31	27	40	**3**	14
3	20	30	22	33	**1**	16

* Thanksgiving Day: a statutory holiday with double pay rate

disability. In 2007, 44% of this facility's employees had more than 11.5 sick days, which is the ministry threshold for placement in the Attendance Support Program. The other nearly identical facility that operated publicly since its inception had 61% of its employees in the Attendance Support Program.

We also received numerous complaints from attendance-management staff at correctional facilities, including their observations that:

- No one ever gets terminated for poor attendance.
- When letters go out to employees asking for a meeting regarding their poor attendance, the employees' sick time increases because they realize they will be placed in the Attendance Support Program anyway.
- A number of staff who call in sick frequently also work a lot of overtime.
- A number of staff call in requesting a leave of absence instead of calling in sick so they will not be placed in the Attendance Support Program and will still be eligible to work overtime.

We asked Alberta and British Columbia about their absenteeism rates for correctional staff and found that both had significantly lower absenteeism than Ontario: 11.3 and 17.1 sick days per year respectively. In these provinces, correctional officers did not work compressed work weeks and their shifts were typically less than eight hours. In Ontario, officers who take sick days are paid for their entire 12-hour shift and each shift counts as only one sick day for the Attendance Support Program.

During our audit, the AIS expressed concern about the high rate of absenteeism. In December 2007, the Assistant Deputy Minister sent a letter to all staff, which included the following:

> I am writing to you today regarding a very serious issue in some of our facilities. We are all aware, staff absences can result in institutions being locked down and programming for inmates being either reduced or cancelled. This impacts negatively on the ministry, its staff, the public and the inmate population in a number of ways including: inability for Corrections to fulfill our legislative mandate; increased risk to our staff and the inmates in terms of their health and safety; our professionalism and reputation; and the tremendous financial impact which is borne by all taxpayers. These situations are unacceptable.

RECOMMENDATION 11

In order to ensure that correctional institutions are appropriately staffed and chronic or culpable absenteeism is properly dealt with, the Ministry of Community Safety and Correctional Services should:

- **re-evaluate its Attendance Support Program to ensure that it can properly identify and deal with employees who abuse sick leave benefits;**
- **investigate the reasons for large overtime payments program-wide and to individual**

employees and implement corrective measures to reduce overtime costs;

- investigate the reasons other jurisdictions have lower absenteeism, including the possible effect of 12-hour shifts; and
- set targets for reducing absenteeism to acceptable levels and implement effective measures for achieving these targets.

MINISTRY RESPONSE

The Attendance Support Program (ASP), adopted by the Ontario Public Service a number of years ago, is, by definition, a tool designed to assist both managers and staff with non-culpable absenteeism through accommodations and return-to-work processes. Within this framework, the ASP is a manageable and useful tool. The Ministry recognizes that this tool has been less than effective in reducing the high rates of absenteeism exhibited by some of our staff.

The Ministry has recently implemented a set of policies and procedures designed to identify and remediate patterns of culpable and otherwise chronic or repetitive absenteeism. While it is early in its implementation, we anticipate this initiative will reduce the high rates of absenteeism and, in doing so, go a long way in the reduction of overall overtime utilization.

Over the past 18 months, a computerized scheduling program has been implemented in most facilities. This system requires managers both to schedule unclassified correctional staff and to approve overtime for classified correctional officers according to specific rules as defined through a recently signed Provincial Overtime Protocol. This program has the capability to track reasons for overtime and unclassified usage, and ensure that overtime is "fairly and evenly" distributed in accordance with the provisions of the collective agreement.

The Ministry continues to work with its key stakeholders to develop permanent solutions that will address structural deficiencies in the current Short Term Sickness program.

The Ministry agrees to consult with and review data from other jurisdictions to assess differences in rates of absenteeism. Absenteeism is noted as an issue in many other correctional jurisdictions.

Correctional Officer Training

Correctional officers take their initial training at their own expense before the Ministry hires them. Once hired, they follow a mandatory training cycle in order to maintain and update their knowledge and to promote ongoing effectiveness. Annual refresher courses for safety-related training on topics that include safety apparatus, defibrillators, and cardiopulmonary resuscitation. A suicide-awareness refresher course is required once every two years, and emergency first aid once every three years. Security-related training is required for correctional officers who belong to their institution's Cell Extraction Team (CET) or Institutional Crisis Intervention Team (ICIT), which deal with incidents of serious threats to staff, inmates, or the institution as a whole.

In 2000, we reported that staff training records were not current and correctional officers were not receiving the training required to keep their skills up to date. Since that time, the Ministry has implemented a tracking system to record the status of training for each staff member, and reported to us that training information was updated weekly.

We reviewed whether mandatory training had taken place at four institutions and found varying levels of success. One institution was current in all its safety-related training for correctional officers. At the other three institutions, 63% of the correctional officers who should have attended scheduled safety-training courses had not done so. Forty percent of the officers we sampled at two of the institutions had not attended the biennial refresher on suicide awareness and were overdue by two or more years. Two out of 57 officers at the four institutions had not completed the refresher course in emergency first aid. We found that training for officers in the CETs and ICITs was up to date at the institutions we visited.

Staff at the institutions we visited informed us of various reasons that mandatory training was not up to date:

- Some staff call in sick on scheduled training days.
- Correctional officers miss scheduled training when they have to replace other correctional officers calling in sick.
- Attendance at recently initiated mandatory training regarding anti-sexism and anti-racism did not leave sufficient time for other training.
- No one was qualified to conduct suicide-awareness training.

In addition, every five years correctional officers are required to take training for dealing with the mentally ill and in gang awareness, effective communications, and stress management. While we did not test this area, we noted both low attendance rates and/or inadequate record keeping by AIS for attendance at these courses.

RECOMMENDATION 12

In order to ensure that mandatory training for correctional officers is completed as required in all institutions, the Ministry of Community Safety and Correctional Services should:

- **more proactively monitor the extent to which training requirements have not been met at its institutions;**
- **determine and address the primary causes of missed training.**

[illegible]

The Ministry recognizes the importance of a fully up-to-date trained workforce. We also recognize that we have not achieved that goal in all instances.

Over the past two years, the Ministry has developed, and recently has implemented, a new and comprehensive tracking system for all training in the Ministry. The Learning Management System replaces outdated local tracking systems and is designed to identify local and provincial training requirements, and to assist in enrolment and in a broader and more comprehensive oversight process.

Our training efforts have been hampered by high rates of absenteeism, which will also be rectified through initiatives identified in our response to Recommendation 11. Using information from the new system will allow the Ministry to determine and address the primary causes of missed training.

Performance Monitoring and Measurement

AIS has two primary functions: to incarcerate offenders and to rehabilitate them. It has established a number of internally and externally reported performance measures to monitor its activities and results pertaining to incarceration, but not pertaining to rehabilitation. Its performance measures related to incarceration include the average length of stay per inmate; number of escapes; program administration costs as a percentage of total costs; utilization of institutional capacity; costs for certain types of expenditures, such as for food and prescription drugs; and the frequency of certain types of safety-related incidents that occur in the institutions. These measures are useful for managing costs and day-to-day operations, and for reporting on the Ministry's mandate to incarcerate offenders. In future, the Ministry will be in a better position to report on its rehabilitation programs by using data from OTIS, which only began capturing this information in March 2008.

In our 2000 audit, we commented that without reliable data on inmates' rate of re-offending and other effectiveness measures, the Ministry was not able to evaluate which programs or institutions were most effective in changing offenders' behaviour. The Ministry responded that it was committed to establishing outcome-based performance measures to assess the effectiveness of programming for all sentenced offenders. However, the Ministry still does not have outcome-focused measures to assess its success in influencing positive change in offenders.

Indeed, the Ministry advised us that it has decided not to set future targets for recidivism because the significant increase in the number of inmates remanded in custody has adversely affected its efforts to provide rehabilitation to inmates. Shorter sentences, time-served credits, and longer lapses between charges and convictions significantly reduce the number of offenders with sentences of six months or more whom the Ministry intended to track for recidivism. At the end of our audit fieldwork, the Ministry informed us that it was developing new methods of tracking re-offence rates, and was working with a Canadian inter-jurisdictional committee to develop a common definition of recidivism.

One province we visited measured and reported on recidivism, finding the measure useful for determining which of their rehabilitation and work-related programs were effective and which were not. We recognize that it may be difficult for the Ministry to have an impact on the rate of recidivism given that sentenced inmates now receive shorter sentences, leaving less time for AIS to address their rehabilitation needs. Nevertheless, given that rehabilitating offenders is a key objective of the Ministry, assessing the effectiveness of its programs to reduce recidivism is important.

RECOMMENDATION 13

The Ministry of Community Safety and Correctional Services should develop and implement performance measures to assess the effectiveness of its rehabilitation efforts, such as recidivism rates.

MINISTRY RESPONSE

As already noted, the Ministry has recently implemented a new module in OTIS for tracking rehabilitation program availability and participation. This, along with the contemplated plan noted in our response to Recommendation 7, will provide the data necessary to help assess the outcomes and successes of our institutional programs. The Ministry is currently reviewing the methodology for determining recidivism to assess the impact of the remand population on the adult institution re-offending rate. In conjunction with other Canadian jurisdictions, the methodology is being revised in 2008/09 and a new baseline will be established in 2009/10.

Chapter 3 Section 3.03

Brampton Civic Hospital Public-private Partnership Project

Background

William Osler Health Centre (WOHC) is one of Ontario's largest hospital corporations, serving Etobicoke, Brampton, and surrounding areas. In the late 1990s, the Health Services Restructuring Commission recognized the need for a new hospital in this region. In September 2000, an external consulting firm provided a capital-cost estimate to WOHC for a 1.275-million-square-foot, 716-bed hospital of approximately $357 million (excluding the cost of equipment). This was the estimate if WOHC was to be responsible for the hospital's design and construction.

In May 2001, the then Minister of Finance announced that public-private partnerships (P3s) would have to be seriously considered before the government of Ontario would commit any funding to new hospitals. Generally, P3s are contractual agreements between government and the private sector by which private-sector businesses provide assets and deliver services, and the various partners share the responsibilities and business risks. In the case of a hospital agreement, the private-sector partners would typically be responsible for the design costs, the construction costs, and the financing (and possibly the ongoing facility capital maintenance costs as well). The hospital would then repay the partners through a series of payments over the long term. Governments enter into P3s because they provide an opportunity to transfer risks to the private sector, allow both sectors to focus on what they do best, and accelerate investment to help bridge the gap between the need for public infrastructure and the government's financial capacity.

In November 2001, the government approved the development of two new hospitals in Brampton and Ottawa using the P3 approach. In August 2003, following a request for proposal (RFP) selection process, WOHC reached an agreement with The Healthcare Infrastructure Company of Canada (THICC), a consortium of the two private-sector companies Ellis Don (construction contractor) and Carillion Canada Inc. (non-clinical-service contractor), and the Ontario Municipal Employees Retirement System (OMERS). Under the agreement, THICC would design, build, and finance a new 608-bed Brampton Civic Hospital. It would also provide certain non-clinical services (including laundry; housekeeping; transporting patients within the hospital; food; security; and maintaining and servicing the facility) over a 25-year period. Under the project agreement with the private-sector consortium, WOHC agreed to pay the consortium a monthly payment over the 25-year service period, beginning on the completion date of the hospital. WOHC also had plans to redevelop an existing hospital under its administration, Peel Memorial Hospital, to provide an additional 112-bed capacity. Together, the two hospitals were expected to meet the projected health-care needs of the community.

In October 2007, WOHC opened the new 608-bed hospital with 479 beds in service. It plans to increase this number to 527 beds in the 2009/10 fiscal year, 570 beds in 2010/11, and 608 beds by 2011/12. According to the Ministry of Health and Long-Term Care, the reason for following this plan is that there was not enough initial demand for health services to require immediately operating the hospital at full capacity. In addition, the hospital lacked the staffing complement on opening day to operate at full capacity.

No clinical services are currently being provided at Peel Memorial Hospital. At the time of our audit, the hospital remained open, with only security and engineering staff on hand to secure and maintain the building and equipment. The Ministry, in conjunction with WOHC and its Local Health Integration Network, is to determine the future plan for the project.

Audit Objective and Scope

The objective of our audit with respect to procurement and financing for the Brampton Civic Hospital Project (Project) was to assess whether adequate systems and processes were in place to ensure that:

- the decision to use the P3 model was suitably supported by a competent analysis of alternatives;
- all significant risks and issues were considered and addressed appropriately in the final agreement; and
- public expenditures were incurred with due regard for economy.

Our audit focused on reviewing the Project's P3 arrangement. An assessment of the clinical services planned or provided by the new hospital was not part of the scope of this audit.

Our audit followed the professional standards of the Canadian Institute of Chartered Accountants for assessing value for money and compliance. We set an objective for what we wanted to achieve in the audit, and developed audit criteria that covered the key systems, policies, and procedures that should be in place and operating effectively. We discussed these criteria with senior management at the Ministry of Health and Long-Term Care (Ministry) and WOHC. Finally, we designed and conducted tests and procedures to address our audit objective and criteria.

Our audit work included interviews with staff and technical and financial advisers engaged by the Ministry and WOHC; review and analysis of pertinent information; and research into the reports and practices of public-private partnerships in other jurisdictions, including other Canadian provinces, the United Kingdom, United States, Australia, and New Zealand. We engaged the service of an independent financial expert to assist in certain aspects of our audit. In addition, during the audit, we received and took into consideration information from certain concerned stakeholder groups. Our audit was conducted primarily at the head office of WOHC in Brampton.

Toward the completion of our audit fieldwork we visited and interviewed staff, contractors, and advisers to the new Peterborough Regional Health Centre. This hospital, which was built about the same time as the Brampton Civic Hospital, followed the traditional model of procurement and not P3. We also held discussions with management of Infrastructure Ontario, a Crown agency established in November 2005 with the mandate to oversee delivery of Ontario's AFP projects. The objective of our visits to these two organizations was to compare delivery approaches and practices.

On this audit, we co-ordinated our work with that of two audit teams of the internal audit division of the province. The two teams conducted work on the province's current processes for managing AFP projects at the Ministry and through Infrastructure Ontario. Their work made observations that, in some cases, corroborated our findings.

Summary

We noted that WOHC had invested much time and effort in planning and delivering the new hospital project. However, WOHC did not have the option of choosing which procurement approach to follow. Rather, it was the government of the day that decided to follow the public-private partnership (P3) approach. We noted that, before this decision was made, the costs and benefits of alternative procurement approaches, including traditional procurement, were not adequately assessed. This, along with a number of other issues we had with respect to this first P3 project at WOHC, led us to conclude that the all-in cost could well have been lower had the hospital and the related non-clinical services been procured under the traditional approach, rather than the P3 approach implemented in this case.

However, as with any new process, there are inevitably lessons to be learned. In responding to our recommendations for future P3 projects (see Appendix), Infrastructure Ontario, the Crown agency now responsible for managing most government infrastructure projects, and its ministry partners indicated that most of the issues we raised are now being handled differently to better ensure the cost-effectiveness of current P3 projects.

After the Ministry directed WOHC to follow the P3 approach for the Brampton Civic Hospital project, it then directed WOHC to compare the estimated cost if WOHC itself—that is, the public sector—had undertaken the project with the bids it received from the private sector. In other words, WOHC was to compare the estimated costs under traditional versus P3 procurement. We noted, however, that the assessment was not based on a full analysis of all relevant factors and was done too late to allow any significant changes or improvements to be made to the procurement process. Our more specific significant concerns with the process were as follows:

- A consulting firm engaged by WOHC estimated in September 2000 that the cost for the government to design and build a new hospital would be approximately $357 million (updated to $381 million in October 2001). Using a similar approach in January 2003, a second consulting firm estimated that the cost would be $507 million (updated in November 2004 to $525 million). While there had been increases in labour and material costs during the period, those increases and inflation alone would not account for the large difference in the two estimates. WOHC had not investigated the reasons for the significant difference between the two independent estimates.
- WOHC added to the estimates for the government to design and build a new hospital an estimated $67 million in risks transferred to the private sector. This is equivalent to expecting a 13% cost overrun if the traditional construction method was used. As well, there are a limited number of companies in the province that are willing or able to undertake a project of this size, and therefore the same companies would be bidding for and doing the work regardless of which procurement approach was chosen. We questioned why the estimates for the government design-and-build approach assumed that the risk of overruns would be so significantly greater and would need to be handled differently than under the P3 approach. WOHC should have more carefully evaluated the extent to which a properly structured contract under a traditional procurement agreement could have mitigated the risk of any such cost overruns.
- We found that the cost estimates for the government to do the project were overstated by a net amount of $634 million ($289 million in 2003 dollars). Specifically, certain design and

construction costs were overstated, and there were costs for non-clinical services that should not have been included in the estimates when comparing to the costs under the P3 arrangement. For example, a depreciation charge was inappropriately included as a non-clinical service cost in the government estimate. As well, the costs for utilities and property insurance that WOHC would be responsible for regardless of who provides non-clinical services was counted as a cost only under the estimate for government provision of non-clinical services, but not in the bid for the P3 arrangement. WOHC had also estimated that it could transfer the risks of price fluctuations to the private sector. However, the project agreement contained provisions allowing for re-pricing of these services after the first four years of the agreement.

- The province's 5.45% cost of borrowing at the time the agreement was executed was cheaper than the weighted average cost of capital charged by the private-sector consortium. Had the province financed the design and construction costs at its lower rate, the savings would be approximately $200 million over the term of the project's P3 arrangement ($107 million in 2004 dollars). However, WOHC had not considered the impact of these savings in its comparison of the traditional procurement approach with the P3 project.
- WOHC and the Ministry engaged approximately 60 legal, technical, financial, and other consultants at a total cost of approximately $34 million. About $28 million of these costs related to the work associated with the new P3 approach, yet they were not included in the P3 cost. While acknowledging that additional professional services will be required given the newness of the P3 process, we still believe a significant portion of the professional costs relating to the P3 arrangement should have been included in the cost comparison.

On the other hand, it was evident to us that WOHC staff and management carried out extensive research and invested significant time and effort throughout the development of the Brampton Civic Hospital Project. As well, with respect to the selection of the private-sector partner, WOHC followed a competitive selection process and took appropriate steps to ensure that the process was designed and conducted in a manner that was fair to all potential, successful, and unsuccessful respondents. However, a competitive selection process was not followed consistently in the engagement of advisers. Over 40% of the advisers in our sample were single sourced. In addition, many consulting assignments were open-ended, without pre-established budgets or a ceiling price. We acknowledge that this was in part due to the arrangement being a pilot and to the uncertainty regarding the exact requirements of the various aspects of the project.

Over the approximately three-year construction period, the total cost came to $614 million, comprising $467 million in design and construction costs for the hospital, which was built on a reduced scale; $63 million primarily for modifications to the facilities to accommodate installation of equipment; and $84 million in financing charges. We noted that a portion of the $63 million cost to modify the facilities for installation of equipment could have been avoided with better planning.

We have prepared a table of recommendations (see Appendix) for consideration in future infrastructure procurement projects. We shared these recommendations with management of WOHC, Infrastructure Ontario, the Ministry of Energy and Infrastructure, and the Ministry of Health and Long-Term Care. As the responses in the Appendix indicate, management of these organizations believe that their current P3 processes address most of the issues we raised with respect to this first P3 project at WOHC.

OVERALL RESPONSE FROM WOHC

WOHC's mission and mandate is to provide hospital facilities and services for the communities that it serves. As noted by the Auditor General, the need for more hospital capacity in the Brampton area was well documented. Moreover, existing facilities varied in age from 30 to 80 years and had suffered a number of age-related infrastructure problems.

In entering into an agreement with the Ministry of Health and Long-Term Care, WOHC recognized that the project would serve as a "pilot" project to test and refine the P3 model for possible future use for hospital capital in Ontario. The agreement was premised on the potential benefits of P3. As noted in the Auditor General's report: "Governments enter into P3s or AFPs because they provide an opportunity to transfer risks to the private sector, allow both sectors to focus on what they do best, and accelerate investment..."

Given the magnitude of the new hospital project, the P3 arrangement did enable the hospital and government to leverage private capital and investment in the new hospital facilities, thereby improving the quality of health-care services to the community sooner than would have otherwise been possible, in light of annual hospital capital allocations.

Another key benefit of the P3 approach is that facilities' maintenance and life-cycle replacement costs are built into the transaction. Under the traditional approach, capital and operating funding decisions are often made independent of one another. The P3 approach requires an analysis of combined operating and capital funding and introduces analytical rigour around life-cycle costs that in some cases did not previously exist. It is important not to underestimate the risk that operating pressures might lead to constraints on maintenance and life-cycle expenditures resulting in higher costs in the long term.

The inclusion of non-clinical services in the Project's P3 arrangement will also likely result in a higher level of such services being available than would otherwise be the case. This approach to paying for the hospital and obtaining services represents a significant benefit to the community (and by contrast, the inability to follow such an approach would represent a significant, even if difficult to quantify, cost).

WOHC acknowledges that the value-for-money assessment prepared by WOHC and its professional advisors was based on the information available at the time. Detailed data on previous Ontario hospital capital projects would have enhanced the confidence level of risk estimates related to our design and construction costs, but this information was not available and anecdotal evidence is not necessarily reliable. We would recommend that the province develop a framework and start collecting this information for use in future projects.

In addition, the sheer magnitude of the project meant that the existing policy and decision-making frameworks were challenged in new ways, particularly with respect to:

- determination and approval of equipment and IT budgets and procurement;
- determination and communication of final local share requirements; and
- determination and disposition of replaced facilities.

In the end, WOHC believes these challenges have been overcome by working in partnership, on one hand, with the Ministry and the provincial government, and on the other hand, with the private sector consortium. Perhaps one of the most important lessons learned from the project, especially given its scale, is the need for a detailed readiness assessment that would identify risks to successful delivery and appropriate mitigation strategies. This should include the need for an experienced and dedicated project delivery team; comprehensive project governance structure and process, including government decision processes; and a comprehensive and integrated commissioning and transition plan to mitigate risks and ensure a timely and safe transition of services to new facilities.

WOHC believes that existence of the Infrastructure Ontario organization with experienced and dedicated resources aimed at optimizing the current P3 process and assisting the hospital sector to successfully deliver the benefits of the approach is of great value, as is establishment of a standard project governance structure to manage project governance, key project approvals, and decision-making.

Overall, WOHC believes that, for the most part, WOHC's goal of improving the delivery of health-care services to the residents it serves has been achieved with lessons learned.

Detailed Observations

OVERVIEW

Although P3s have become more common in recent years, the Canadian P3 market was in the early stages of development when the government directed WOHC to use P3 as the model to follow in procuring and financing a new hospital. According to WOHC, the Brampton Civic Hospital Project was meant to be a pilot project, as it was among the first in Ontario to follow the P3 approach. WOHC indicated to us that it therefore carried out extensive research and was guided by P3 practices used in the United Kingdom.

The province has since released *Building a Better Tomorrow*, a framework for public infrastructure development that includes guidelines for private-sector involvement in such development—known in Ontario as Alternative Financing and Procurement (AFP). This framework, established in 2004, stipulates five fundamental principles for infrastructure development: protection of the public interest; value for money; appropriate public control/ownership; accountability; and fair, transparent, and efficient processes. The framework also has principles specifically for procurement, as follows:

- Procurement processes must be fair, open, and transparent.
- Infrastructure procurement opportunities must be tendered publicly, using competitive processes.
- Procurement processes should ensure the efficient and cost-effective participation of bidders.
- Procurement decisions must be based on value-for-money assessments, with the protection of the public interest being paramount.
- Risks should be allocated to the party that is best able to manage them.

In November 2005, a Crown agency—Infrastructure Ontario—was established with the mandate to oversee delivery of all AFP projects in the province. This followed the province's announcement in May 2005 of *ReNew Ontario*, a five-year plan to invest more than $30 billion in public infrastructure by the year 2010. The plan included approximately $5 billion for health-care projects; a significant number of these are to be financed and built using AFP arrangements. All AFP projects are to undergo a value-for-money analysis by independent consultants to ensure that they offer potential cost savings when compared to a traditional procurement approach. At the time of our audit, Infrastructure Ontario was managing about 35 health-related AFP projects in various stages of completion.

We acknowledge that the province's framework for infrastructure procurement was introduced after the Brampton Civic Hospital P3 arrangement had been finalized. In reviewing this project, we compared it to best practices in other jurisdictions as well as the principles in the *Building a Better Tomorrow* framework.

NEED FOR A NEW HOSPITAL IN BRAMPTON AND DECISION TO ADOPT THE P3 PROCESS

The need for additional hospital capacity in Brampton was first recognized in the late 1990s by the Health Services Restructuring Commission, an independent body established in 1996 by the Ontario government to make decisions on restructuring Ontario's public hospitals and to advise the Minister of Health on other aspects of Ontario's health services system. Specifically, WOHC had projected that from 2000 to 2008 the population of the Brampton area would grow by 15,000 to 20,000 residents annually. According to Statistics Canada data, the actual population growth in the Brampton area between 2001 and 2006 has been about 22,000 residents each year.

We noted that the need for more hospital capacity in the Brampton area was well demonstrated and that WOHC had invested much time and effort in planning and delivering the new hospital project. However, WOHC did not have the option of choosing which procurement approach to follow. In a letter to WOHC dated February 2002, the Ministry of Health and Long-Term Care directed that the P3 model must be the one used for the development of the new hospital, and that other options or deviations from this model could not be considered. At the time, WOHC had already incurred about $6 million in fees for technical advice primarily relating to cost consulting and architectural design, in preparation for the design and construction of the new hospital under the traditional design-build procurement approach.

With a contract of this size, best practices call for a business case to assess the costs and benefits of a range of alternative procurement models, to allow the option that offers the best value for money to be chosen. One approach is a value-for-money assessment that captures the total estimated cost of the traditional public-sector delivery of an infrastructure project through a design-build approach and compares that to the estimated delivery cost of the same project using a P3 model. This assessment should be carried out early in the process, as recommended, for example, in a 2004 value-for-money P3 assessment guide published by the UK Treasury. The guide says that "it is important that value-for-money assessments take place at the earliest practical stage of any decision-making process and that departments retain the flexibility to pursue alternative procurement routes if at any stage P3 does not offer the best value for money."

In the case of the Brampton Civic Hospital Project, we noted that the Ministry did direct WOHC to commission a value-for-money assessment of the P3 arrangement, but only after the decision to follow the P3 approach had been made. In fact, the assessment was not completed until about the time the initial RFP was issued in November 2002. There was little opportunity by the time WOHC commissioned the assessment to make any meaningful improvements to the arrangement, and prospective bidders would have already made significant investments preparing their submissions.

The WOHC assessment only provided a reference point against which it and the Ministry assessed the reasonableness of the bids received. There was no formal assessment based on a business-case analysis of criteria to help determine which procurement option offered the best value for money. Specifically:

- There was no formal analysis of whether the market had sufficient capacity and was competitive enough to support a P3 arrangement for the project. Our review of available information suggested that only a limited number of construction contractors in the province are able or willing to undertake a project of this size. The same construction companies would be involved in the bidding and work regardless of whether WOHC followed the traditional procurement or P3 approach.

  At the direction of the Ministry, WOHC was also asked to engage the private sector not only to design and build the new hospital, but also to provide maintenance and non-clinical services for it. As most private-sector companies specialize in providing either capital construction or operational support services, the mingling of the two further limited the number of companies qualified to deliver the P3 arrangement.

- There was no formal analysis of the likelihood and potential value of the risks—such as cost overruns—that traditional procurement might have incurred. When such risks are known to be significant, transferring them to the private sector is a key benefit of the P3 approach. A proper business-case analysis would have required much clearer evidence that significant cost overruns were likely if WOHC managed a traditional design-and-build approach. Only then would a P3 arrangement to help mitigate such risks have been thoroughly justified.
- A prior assessment of all of the costs of the Project's P3 arrangement was not carried out. We were advised that adopting P3 was the only way that WOHC could receive funding for a new hospital. Nevertheless, a significant component of cost under either arrangement is the cost to finance the construction of the hospital. In this regard, government could have secured a lower financing rate owing to its credit rating. However, we noted that the Ministry had not conducted a formal assessment of the cost differential between public and private financing, and whether the additional costs associated with private financing would be more than offset by the risks that could be transferred to the private sector.
- Another significant cost component that tends to be high for a P3 or AFP arrangement in comparison to traditional procurement is transaction costs, such as fees for technical, legal, and financial advisers. We noted that the potential impact of such costs had not been assessed.

As detailed in the remaining sections of this report, we identified a number of other issues that demonstrate the importance of a thorough assessment of the costs and benefits of all available procurement alternatives, as well as better planning in future infrastructure development projects.

COMPARING THE COSTS OF TRADITIONAL PROCUREMENT TO P3

Overview

As indicated earlier, planning for a new Brampton hospital began in early 2000. Because few new hospitals had been built in recent years, information on the costs of building new hospitals was lacking. In 2000, in order to arrive at an estimate of what it would cost the government to build the new hospital under the "traditional procurement" system, WOHC engaged the services of a firm of cost consultants (quantity surveyors). The estimation process is fairly standardized. It involves the preparation of a functional program to provide a preliminary estimate of the area required for each hospital department and applies an estimate of the relevant cost per square foot to come up with a total amount. Other costs such as building shell, common areas, ancillary costs, and site development, as well as contingencies and allowances, are then factored in to arrive at an estimate of the total cost. On that basis, WOHC estimated in September 2000 that a new 716-bed, 1.275-million-square-foot hospital would cost the government approximately $357 million. In October 2001, this amount was updated to $381 million to reflect cost increases.

Despite the existence of this estimate, the Ministry directed WOHC in 2002 to provide a second estimate of what it would cost the government to build the hospital under the traditional procurement system—in other words, the cost for WOHC to undertake the project itself—to enable a comparison with the costs under a P3 arrangement. WOHC engaged a second cost consultant to come up with this estimate using an approach similar to that of the first estimate.

In January 2003, this second cost consultant estimated that it would cost the government

$507 million under traditional procurement to design and build a new 608-bed, 1.2-million-square-foot hospital. With respect to non-clinical costs, such as laundry, housekeeping, food services, and so on, WOHC benchmarked the 2001 cost of having these services provided by WOHC itself and by 10 other hospitals to arrive at an estimate. These traditional procurement estimates formed the basis of the value-for-money assessment of the P3 arrangement by WOHC, which WOHC commissioned through a financial consultant. The Ministry of Health and Long-Term Care also hired its own consultants to review WOHC's assessment.

In addition to the traditional procurement estimates above, WOHC had by April 2003 received bids from the private sector for procuring the hospital under a P3 arrangement. The bids, for the proposed 28-year term of the arrangement (30 months for design and construction and a 25-year service period) included three main cost components: design and construction; non-clinical services; and financing costs comprising interest and dividends. Figure 1 shows the comparison between the January 2003 estimate under traditional procurement and the April 2003 preferred bid. Both the bid and the estimate were updated in November 2004, when the P3 agreement was finalized.

At November 2004, the updated cost estimate for design and construction was $525 million. WOHC quantified and added to the $525 million a total of $67 million in design and construction risks that it estimated could be transferred to the private sector under a P3 arrangement. WOHC considered this a reasonable "cost" to include to cover potential cost overruns that it felt were more likely if the government were responsible for design and construction. More specifically, WOHC identified 43 risks, including the risks of cost increases due to design errors and omissions, unknown site conditions, delays in obtaining site plan approvals and/or building permits, and labour wage increases and/or disputes. Thus, in total, WOHC estimated that building the new hospital would cost the government $592 million ($550 million in 2004 dollars).

In contrast, the capital cost portion of the new hospital in the final P3 agreement that WOHC reached with the private-sector consortium in November 2004 was approximately $467 million ($431 million in 2004 dollars).

Figure 2 compares WOHC's cost estimates of September 2000 and November 2004 for the government to design and build the hospital with the amount agreed to under the Project's P3 arrangement in 2004 for the private sector to design and build the hospital. At first glance, when comparing the November 2004 estimate to the amount agreed to under the P3 arrangement, the P3 approach clearly appeared much less costly.

However, as discussed below, we felt a number of adjustments were needed to the November 2004 cost estimate. We also questioned whether WOHC

Figure 1: WOHC's Comparison of Cost Between Traditional Procurement and P3 ($ million)

Source of data: WOHC

	January 2003 Estimate Under Traditional Procurement		April 2003 P3 Preferred Bid	
	Nominal	**2003 Dollars**	**Nominal**	**2003 Dollars**
design and construction[1]	507	465	1,151[2]	513[2]
non-clinical services	1,745	687	1,440	612
transferred risk[3]	172	96	n/a	n/a
Total	**2,424**	**1,248**	**2,591**	**1,125**

1. for a 608-bed, 1.2 million-square-foot hospital
2. includes financing
3. relating to design and construction ($67 million), life cycle ($2 million), and non-clinical services ($103 million)

Figure 2: WOHC's Comparison of Design and Construction Costs ($ million)

Source of data: WOHC

	WOHC's Sep 2000 Estimate for Government to Design and Build	WOHC's Nov 2004 Estimate for Government to Design and Build		WOHC's Nov 2004 Cost for P3 to Design and Build	
		Nominal	2004 Dollars	Nominal	2004 Dollars
design and construction	357	525	492	467	431
transferred risk	n/a	67	58	n/a	n/a
Total Before Financing Costs	**357**	**592**	**550**	**467**	**431**

Note: The September 2000 estimate was for a 716-bed, 1.274-million-square-foot hospital. The November 2004 estimates were for a 608-bed, 1.2-million-square-foot hospital.

had adequately considered all significant costs of the Project's P3 arrangement.

The cost to provide non-clinical services also seemed to be much lower under P3 than under the traditional procurement approach, as shown in Figure 3. However, our review indicated that the cost for the hospital rather than the P3 contractor to supply non-clinical services was overstated by $582 million ($245 million in 2003 dollars).

On the basis of this concern and the issues we identified (which are presented in detail in the following subsections), we question whether this first P3 pilot project actually did result in the Brampton hospital costing less than it would have under the traditional approach.

Design and Construction Cost Estimate

As can be seen in Figure 2, the November 2004 design and construction estimate of $525 million (exclusive of transferred risk) exceeds the initial September 2000 estimate of $357million by $168 million. While there had been increases in labour and material costs (such as steel prices) over the period, those costs and inflation alone could not account for the large difference in the two estimates.

We compared the functional programs prepared by the two cost consultants and noted that for the most part they were comparable. However, there were two areas where we questioned the large difference in the two estimates:

- *Cost of unassigned areas such as common areas, plant space, and building shell*—Representatives we interviewed at various cost consulting and architectural firms indicated that it is a common practice to apply 26.5% of the total area in square feet of the individual departments as a basis for estimating the square footage and cost for unassigned areas. This percentage was applied to both the November 2004 estimates and the September 2000 estimate. In the November 2004 estimates, however, an additional $112 million was included for building shell, which is normally already included as part of the 26.5% gross-up for unassigned areas. As a result of this separate amount for building shell, the cost of the unassigned areas in the November 2004 estimates was $530 per square foot, compared to $200 per square foot in the September 2000 estimate. The impact of this difference in the area costs was about $79 million.
- *Contingencies and allowances*—These are allowances for cost escalations during construction and for design, construction, and pricing unknowns. The cost consultant engaged by the Ministry had pointed out that one-third of the design and construction costs of $525 million in the November 2004 estimate for government design-and-build was made up of allowances and contingencies. Specifically, the Ministry's consultant identified a potential net overstatement of

Figure 3: WOHC's Comparison of Non-clinical Service Costs ($ million)

Source of data: WOHC

	WOHC's Nov 2004 Estimate for Government to Provide		WOHC's Nov 2004 Cost for P3 to Provide	
	Nominal	2004 Dollars	Nominal	2004 Dollars
non-clinical services*	1,997	791	1,536	647
transferred risk	108	43	n/a	n/a
Total	**2,105**	**834**	**1,536**	**647**

* includes life-cycle costs of $107 million and $99 million under traditional procurement and P3 respectively

approximately $40 million in the November 2004 estimate for government design-and-build, but the Ministry did not follow up with WOHC on these findings. We also felt a one-third contingency allowance was unduly high, especially given that separate provisions totalling $67 million had already been made for transferred risks relating to various contingencies.

Another concern we had was the $67 million in transferred risks that was added to the November 2004 government design-and-build estimate. This amount was arrived at on the basis of the judgment and experience of management and consultants. Owing to the subjective nature of these estimates, it is virtually impossible to substantiate the validity and accuracy of the quantified amounts. We were concerned that the transferred risks for this project amounted to almost 13% of the November 2004 government design-and-build estimate of $525 million. In comparison, actual cost overruns (a major component of risk transfer) in the design and construction of the Peterborough Regional Health Centre—a hospital built under the traditional procurement approach during the same period—were about 5% of the total contract value.

Also noteworthy in this regard is the limited number of contractors in Ontario's construction market that are capable of providing services to large capital projects such as the new Brampton hospital. The same architects and construction companies would be bidding on and doing the work regardless of which procurement approach was chosen. We therefore questioned why the estimates for the government design-and-build approach assumed that the risk of overruns would justify an additional 13%, or $67 million, being added to the cost estimate for the traditional approach. In quantifying and assigning transferable risks, WOHC should have more carefully evaluated and documented the extent to which a properly structured contract under a traditional procurement agreement could have mitigated the risk of any such cost overruns.

The cost consultant engaged by the Ministry to review WOHC's estimate indicated that, in total, there could be a net overstatement in the government design-and-build estimate of nearly $44 million (in 2003 dollars). On the basis of the above analysis, we believe the potential overstatement may well be higher.

Non-clinical Services Cost Estimate

Under the Project's P3 arrangement, the private-sector consortium is responsible for providing non-clinical services including laundry, housekeeping, portering (transporting patients within the hospital), patient and non-patient food, materials management, security, and plant operations and maintenance. As with the design-and-construction cost comparison, the cost to provide these non-clinical services also seemed to be much lower under P3 than under the traditional procurement approach, as shown in Figure 3. However, our review indicated that the estimate for the hospital to provide these services instead of outsourcing them as part of a P3 contract was overstated by $582 million ($245 million in 2003 dollars). We reviewed our work with an expert in business valuation, who agreed with our assessment.

We identified four items that should have been excluded from WOHC's analysis of the government-provision-of-services estimate and two others that should have been added. The Ministry's consultant also flagged several of these items; however, the consultant's concerns were not followed up with WOHC.

The inclusion of the following items in the estimate for government provision of services was inappropriate:

- *$308 million ($134 million in 2003 dollars) for depreciation of mechanical and electrical components*—Such a charge is already included in the cost estimate for design and construction and ongoing life-cycle renewal of major facility subsystems.
- *$203 million ($88 million in 2003 dollars) for utilities and property insurance*—Over the term of the agreement, WOHC is responsible for paying these costs directly, regardless of whether the WOHC or the private sector is responsible for operating the hospital. These costs should therefore not be included in the estimate for government provision of services.
- *$83 million ($36 million in 2003 dollars) for annual inflation from 2001 to 2007 at a rate of 3.6%* —WOHC used an annual inflation rate of 3.6% to derive the benchmarked data for expenditures made by the other hospitals, with which it arrived at the cost estimate for government provision of services. As these expenditures were mostly made up of salaries and wages, we reviewed the hospital's agreements with its unions and noted that a 2% inflation rate for the period would have been more appropriate. WOHC was not able to provide support for the higher rate used.
- *$95 million ($34 million in 2003 dollars) for the risks of price fluctuations resulting from estimation error and/or inflation*—In its estimate for government provision of non-clinical services, WOHC estimated the risks of price fluctuations resulting from estimation error and/or inflation to be $108 million ($43 million in 2003 dollars) over the 25-year term of the project agreement. However, the project agreement contained benchmarking and market-testing provisions allowing for re-pricing of the support services after the first four years of the agreement. Therefore, the risk is being transferred only for this initial term of the agreement. Of the total value of $108 million in transferred risks, $95 million ($34 million in 2003 dollars) was related to the years after the re-pricing provisions would take effect and should have been excluded from the estimate for government provision of services.

On the other hand, we did note the following two areas where costs should have been included in the estimate for government provision of services but were not:

- The volumes used to estimate the costs for the government to provide laundry services, transport patients within the hospital, and provide food services were lower than volumes in the executed agreement at financial close. If the actual volumes in the executed agreement had been used, the estimate for government provision of services would increase by $89 million ($39 million in 2003 dollars).
- The amount of $18 million ($8 million in 2003 dollars) in costs associated with providing food services and materials management services at WOHC's other hospital, Etobicoke General, was removed from the estimate for government provision of services. This cost should be added back because, under the executed agreement, the private-sector consortium is still providing this service at this hospital.

We believe that, in total, the estimate for the hospital to provide the non-clinical services directly (rather than outsourcing them as part of the P3 contract) was overstated by at least $245 million (in 2003 dollars).

In addition to the above net overstatement, the cost estimate that WOHC had calculated for providing the non-clinical services itself (rather than part of P3) was higher than the average of 10 other hospitals that it had benchmarked. WOHC told us that this was because new hospitals are more costly to operate than established ones. However, the Ministry's consultant was unable to substantiate this explanation and indicated the cost of WOHC providing the non-clinical services itself would have been $126 million ($42 million in 2003 dollars) less if the average costs of the 10 hospitals had been used as the benchmark in the calculation.

Transaction Costs Not Considered in WOHC Assessment

WOHC and the Ministry engaged approximately 60 legal, technical, financial, and other consultants in the P3 arrangement at a total cost of approximately $34 million, of which WOHC had already spent about $6 million before the government directed it to adopt the P3 approach. The difference of $28 million was not included in considering the costs of the P3 project approach.

Estimated Costs After Audit Adjustments

As indicated in Figure 1, WOHC's cost comparison clearly indicated that the P3 approach would cost much less than the traditional approach. However, if the above adjustments are made to reflect what we believe is a more representative cost estimate—as we have done in Figure 4—it can be seen that the traditional procurement approach may well have cost less.

Figure 4: Our Comparison of Total Costs After Audit Adjustments ($ million, 2003 Dollars)

Prepared by the Office of the Auditor General of Ontario

	Traditional Procurement Estimate	P3 Cost
WOHC's assessment	1,248	1,125
adjustments based on our audit work[1]	(289)	28
Adjusted Total	**959**	**1,153**

1. Our adjustments to the traditional procurement estimate include the $44-million overstatement for design and construction estimated by the Ministry's cost consultant and $245 million relating to overstatements in the estimate for non-clinical services.

Timing and Methodology of the Cost Comparison

Timing

Both WOHC's estimates and the Ministry's review of them were completed only after critical stages of the Project's P3 procurement process had passed. They were therefore not very useful in suggesting possible improvements to the process. Moreover, since the decision to follow P3 had already been made, there was a risk that the estimates and reviews could be biased in favour of the P3 approach over the traditional approach.

The specifics of the timing were as follows. The first estimate of cost under the traditional approach from WOHC was produced in January 2003. By then, evaluation of the bidders who had responded to the initial phase of the RFP was well under way. As a result of delays in finalizing the project arrangement, WOHC then updated this estimate in November 2004, after the preferred bidder had been chosen and negotiations had concluded. Both the initial and updated estimates indicated that the P3 arrangement was more favourable than the traditional procurement approach.

The Ministry's initial review of WOHC's comparative analysis was not finalized until March 2003, when evaluation of bids for the initial phase of the RFP process had already been concluded.

An update of this review was completed in January 2005, two months after WOHC had already executed the agreement with the preferred bidder. In fact, WOHC management was not aware that the Ministry had produced an updated report when we brought it to their attention.

Methodology

In comparing the design and construction costs of the two options, WOHC assumed that there would be no financing if the government undertook the project itself, but that the arrangement would be financed over 25 years. It justified this assumption by noting that in the past, hospitals were required to have their share of project costs available before the Ministry would approve any projects.

Governments do have the capacity and the option of financing and typically obtain a lower debt interest rate than private-sector borrowers do. The province's 5.45% cost of borrowing at the time the agreement was executed was cheaper than the weighted average cost of capital charged by the private-sector consortium. Had the province financed the design and construction costs under the same terms as the private-sector partner but used its lower rate, we estimate that the savings in financing costs would be approximately $200 million ($107 million in 2004 dollars) over the term of the agreement. WOHC and the government entered into the P3 project arrangement recognizing that the arrangement's financing costs were higher than those of the traditional approach, but nevertheless assumed that the value of the risk transfer to the private-sector consortium, either alone or together with other offsetting advantages, would equal or exceed the higher cost and would compensate for it. However, as discussed earlier, we questioned the magnitude of the perceived benefits resulting from the transfer of cost overruns and other risks because many of the risks could be mitigated in a sound competitive and contractual process.

In response to our comments in this section, WOHC indicated to us the comparison was based on the information available, and that no models or framework existed to guide its analysis at the time. It believes the current process has improved substantially, although there continues to be a need for more formal methods and comparable data to assess risks and measure the relative value of each procurement approach.

COST INCREASES SUBSEQUENT TO SELECTION OF PREFERRED BIDDER

In April 2003, when WOHC selected the preferred bidder, the amount attributed to design and construction of the new hospital was $427 million. Minor changes to the scope of the project totalling $8 million were agreed to afterward. As well, WOHC agreed to assume the $32-million cost of constructing the parking structure, which the consortium had previously agreed to build, in return for the related parking revenue that the consortium would have received. The net revenue from parking over the term of the arrangement was expected to offset the additional construction cost. These changes increased the cost of design and construction by $40 million, to $467 million.

A change in government, actions taken by unions and a coalition of community organizations, and complications associated with finalizing the financial arrangements caused a nearly 20-month delay between the selection of the preferred bidder and the final execution of the agreement in November 2004. As a result, the consortium made an additional claim to WOHC for construction cost escalations. WOHC engaged the services of a cost consulting firm to review the consortium's claim, and the two parties settled on $16 million to be realized by reducing the original scope of the project. Some of the more significant changes to the plan included eliminating the ambulatory care building (with services relocating to another part of the hospital) as well as a 32,000-square-foot administration building, and reducing the number of parking spaces by 130. The consortium also made claims for non-clinical services relating to the timing of inflation adjustments, extra insurance premiums, and other matters. We reviewed the claims and felt that they were generally reasonable.

However, we noted that the planning for the installation of medical and IT equipment was not integrated with the construction process. As a result, over and above the cost of design and construction, WOHC paid $63 million for mainly mechanical and electrical modifications within the new facility to accommodate the installation of medical equipment. While such modifications are not unexpected in hospital construction, the proportion of the total costs that they constitute is typically much lower, as we noted in our visit to the Peterborough Regional Health Centre. WOHC acknowledged a portion of this cost could have been avoided with better upfront planning.

The new hospital opened in July 2007. Over the approximately three-year construction period the total cost came to $614 million, comprising $467 million in design and construction costs for the hospital, which was built on a reduced scale, $63 million primarily for modifications to the facilities to accommodate installation of equipment, and $84 million in financing charges during the construction period.

THE TENDERING PROCESS

Selection of P3 Contractor

WOHC followed a four-stage competitive selection process:

- *Request for expression of interest (RFEI)*—The RFEI stage solicited the level of interest of companies or consortia in the P3 transaction. Twenty-three companies or consortia responded to the RFEI.
- *Request for qualifications (RFQ)*—The RFQ stage solicited statements of qualifications from interested companies or consortia to qualify for the next stage. Four parties responded to the RFQ, and all four proceeded to the subsequent stage of the process.
- *Stage 1 request for proposals (Stage 1 RFP)*—This stage of the process solicited detailed submissions, including bids, from the four parties that qualified in the RFQ stage. All four parties responded, and after WOHC's evaluation of the responses, the two highest scoring bidders proceeded to the subsequent stage.
- *Stage 2 request for proposals (Stage 2 RFP)*—In this stage the two remaining bidders were asked to resubmit their proposals incorporating some of the suggestions received in the stage 1 evaluation. Both bidders responded, and after an evaluation of the responses, one was selected as the preferred proponent and the other was selected as the reserve proponent.

As indicated above, 23 companies or consortia made the initial submission in response to the RFEI, but only four consortia were able to submit a proposal. WOHC explained that the P3 process was new to Ontario at the time and that the lack of market readiness limited the number of companies that were able to submit a bid. In this regard, we believe that the bundling of design and construction along with non-clinical services in the P3 arrangement might have further limited the number of companies that were able to bid on the entire P3 contract.

WOHC retained an accounting firm to monitor its process of selecting the P3 contractor and to assess whether the process was designed and conducted in a manner that was fair to all potential, successful, and unsuccessful respondents. The firm concluded that, despite some variances that it noted, overall the process was fair to all respondents.

Engagement of Advisers

Between 2000 and 2007, WOHC and the Ministry engaged nearly 60 legal, technical, financial, and other advisers at a cost of nearly $34 million to assist with the Brampton Civic Hospital Project. The value of the individual assignments ranged from a few hundred dollars to nearly $10 million. The vast majority of these advisers were engaged by WOHC to aid in developing the project agreement, financial advice, or the building and service specifications of the new hospital, among other things. Figure 5 shows a breakdown of the amount spent on these advisers by type of adviser.

WOHC's procurement policy requires that a competitive procurement process be followed when the anticipated annual value of a product or service exceeds $50,000. We noted that for many of the advisers used in the P3 project arrangement for the Brampton Civic Hospital, WOHC did not follow a competitive procurement process even though the value of the assignment exceeded this threshold. In other cases, where a competitive procurement process appeared to have been followed, WOHC was not able to provide the underlying documentation as evidence of the competitive process followed.

Specifically, our test of a sample of advisers indicated that over 40% of them had been single sourced by WOHC. Of the remaining 60%, in most cases there was no evidence of tendering. WOHC indicated to us that it had followed a competitive process in some cases but was unable to locate the supporting documentation.

Many of the consulting assignments were open-ended assignments without pre-established budgets or a ceiling price. WOHC informed us that the engagements were open ended because the P3 project arrangement for the Brampton hospital was a pilot and the hospital was uncertain of the exact requirements of the various aspects of the project. Nevertheless, it is extremely difficult to monitor the work of advisers and assess the reasonableness of billings if assignments are not clearly defined with deliverables and estimated costs.

Figure 5: Advisers Used by WOHC and the Ministry

Prepared by the Office of the Auditor General of Ontario

Type of Adviser	# of Advisers	Total Amount Paid ($ million)
legal	9	12.8
technical	12	12.7
financial	9	4.9
other	28	3.5
Total	**58**	**33.9***

* Of this total, $6 million was paid to two technical advisers prior to the decision to use the P3 approach.

NON-CLINICAL SERVICES CONTRACT MANAGEMENT

Project Agreement and Performance Monitoring

Overall, we noted that the project agreement between WOHC and the private-sector partner contained remedy provisions to protect the hospital against risks such as delays in the construction of the hospital or significant disruptions in the provision of the non-clinical services at any time during the term of the agreement, resulting from a major failure or insolvency of the private-sector partner.

With respect to the provision of the non-clinical services, the project agreement specified comprehensive service standards to be maintained by the private-sector partner. To monitor these service standards, the private-sector partner is required to establish a hotline for WOHC staff, visitors, and patients; conduct periodic user satisfaction surveys; and self-monitor by tracking and reporting service failures to WOHC on a monthly basis. Service failures are events that have a material adverse effect on the ability of WOHC to provide clinical services at the new hospital or that cause the death or serious personal injury of any person, and, in general, include the failure to provide services in accordance with the service specifications. Under the terms of the agreement, WOHC can make deductions from the monthly payment in the event of service failures.

The project agreement allows WOHC to audit the private-sector partner's quality assurance and management systems, including all relevant service plans and any manuals and procedures used by the contractor at intervals of approximately three months. WOHC may also carry out other periodic monitoring and spot checks as it considers appropriate, and may carry out performance reviews of the private-sector partner.

At the time of our audit, the private-sector partner had established the hotline and had been submitting the monthly performance-monitoring reports. In addition, the contractor had conducted the first user satisfaction survey in February 2008. WOHC indicated that it was in the process of establishing procedures for the formal monitoring of the private-sector partner's performance.

Service Volumes

The project agreement contained benchmark service volumes for certain non-clinical services (linen and laundry services, patient food services, and materials management). The service contractor is to submit monthly invoices based on these benchmark volumes. Every quarter in which actual volumes are less than 95% or greater than 105% of the benchmark volumes, a unit rate is to be applied on the difference, to calculate adjustments to the service payments. We noted that no adjustments had been made in the first quarter of the hospital's operation. WOHC informed us that it planned to capture these adjustments at the hospital's fiscal year-end of March 31, 2008. According to the project agreement, WOHC can audit the volumes reported by the contractor; however, the hospital had not established any specific audit procedures.

Currently, portering (transporting patients within the hospital) is not subject to these quarterly adjustments. In the agreement, the price charged by the private-sector partner for portering is fixed, and no adjustment is permitted unless as a result of a variation to the contract. The contractor's bid, based on a volume of approximately 56,000 annual portering tasks that WOHC initially estimated in the RFP, was approximately $9.3 million for the initial four-year term, after which the re-pricing provisions for non-clinical support services take effect (see the section Non-clinical Services Cost Estimate). At the time of our audit, WOHC and the contractor were discussing an amendment to the project agreement regarding large differences between the actual number of portering tasks and those estimated in the RFP. In the amendment, the contractor proposed establishing benchmark volumes for portering that ranged from 194,000 projected moves—or about a 250% increase—in the 2007/08 fiscal year to 246,000 projected moves in 2011/12; if actual volumes exceeded the benchmark, it would be entitled to an additional payment. At the end of our fieldwork, WOHC and the private-sector partner were still in negotiations over this issue.

LOCAL SHARE OF THE CAPITAL COST

When the hospital opened in October 2007, there were concerns about WOHC's ability to come up with its local share of the total capital costs. In fact, there was a shortfall, and WOHC subsequently requested that the Ministry revise the local share. One of our recommendations in the Appendix is that, prior to hospital projects being approved, the Ministry ensure that hospitals have a realistic plan to raise the agreed-to local share.

According to the 2004 funding agreement with the province, WOHC's local share of a total capital cost of $1.3 billion over 25 years was to be $452 million, or about 30%. The Ministry granted WOHC a credit (value adjustment credit) equal to the difference between the estimated cost for government design-and-build and the preferred P3 bid, which came to approximately $164 million, and other credits totalling nearly $40 million, leaving the local share at $248 million. At the time of our audit in 2008, WOHC was requesting that the Ministry revise the local share of the capital cost of the construction of the new hospital by another $119 million, from $248 million to $129 million.

In addition to the capital cost of construction, WOHC had also incurred over $240 million in equipment and equipment installation costs for the hospital. The Ministry had previously agreed to fund over $175 million of the total equipment and installation costs, leaving WOHC to fund the remaining $65 million.

Near the end of our audit, WOHC informed us that it had now identified approximately $175 million in funding from the following sources, leaving a shortfall—provided its request would be approved by the Ministry—of approximately $19 million ($129 million + $65 million − $175 million):

- Region of Peel—$37 million;
- ancillary revenues (mainly from parking)—$70 million;
- interest—$34 million; and
- donations—$35 million.

Under the most recent proposal by WOHC, and in accordance with the process of review and adjustment to funding contributions provided for in the funding agreement, the Ministry would now fund approximately 90% (all but $129 million of $1.3 billion over the 25-year term of the contract) of the total capital costs of the hospital. In addition, under an existing arrangement, the Ministry will fund approximately 70% ($175 million of $240 million) of the cost of the equipment.

TRANSPARENCY AND ACCOUNTABILITY

In P3 transactions such as the one entered into by WOHC and the province for Brampton Civic Hospital, a balance has to be struck between the taxpayer's right to know about the cost and other details of the transaction and the private-sector partner's desire to protect proprietary information. At the time WOHC entered into the P3 transaction, there was no standard policy on disclosure practices specific to these P3 arrangements. Certain stakeholders expressed concern with regard to the commercial secrecy surrounding the P3 arrangement, even though WOHC did disclose in its published financial statements some details of the transaction. These included the total obligation to the private-sector partner under the P3 arrangement, the cost of design and construction, the interest rate on the financing, and the total costs of non-clinical services to be provided by the private-sector partner over the term of the agreement. WOHC also posted a summary of the project agreement on its website.

Nevertheless, other financial information and documents, such as some aspects of tender documents and value-for-money assessments, could also be made available to the public while at the same time protecting private proprietary information. Because the government has entered into a number of other P3 or AFP arrangements, the need to establish a standard policy on disclosure practices becomes even more important. A consistent approach to disclosure will not only help ensure transparency but also help provide some assurance to private-sector partners as to what can be disclosed and what is confidential and will not be disclosed. To this end we note that Partnerships BC, the agency responsible for managing public-private partnerships on behalf of the government of British Columbia, has on its website disclosure guidelines for public-private partnerships. Its guidelines, based on the principles of competition and transparency, list the recommended disclosures at all stages of a public-private procurement process. Infrastructure Ontario indicated that it has developed an internal policy on disclosure and, based on this policy, key documents related to major project milestones such as requests for proposals, project agreements, and value-for-money reports on individual projects are posted on its website. To further enhance disclosure practices, the agency should consider posting on its website the standards and disclosure criteria outlined in its policy. In addition, it should consider disclosing other relevant information for individual projects, such as progress reports and interim and final costs.

Appendix—Recommendations for Future P3 Infrastructure Development Projects

Issues Noted in Office of the Auditor General Review	Lessons Learned and Recommendations	Infrastructure Ontario/MEI[1]/MOHLTC[2]/ WOHC Response and Current Practice
Decision to Adopt P3		
1. There was no formal assessment of the costs and benefits of all available procurement alternatives.	The costs and benefits of all feasible procurement alternatives should be evaluated. Consideration should be given to expanding the involvement and expertise of Infrastructure Ontario to all infrastructure projects.	MEI/Infrastructure Ontario Response: The Ministry of Energy and Infrastructure recommends investments in particular projects through the infrastructure planning process, part of the annual Budget Planning process. Individual projects are evaluated against policy priorities and to ensure they are consistent with ReNew Ontario, the government's five-year, $30-billion Infrastructure Plan. Investment decisions are made independently of the assessment of procurement alternatives. The Ministry of Energy and Infrastructure also conducts a preliminary assessment of projects to determine whether they may be suitable for alternative financing and procurement (AFP) and should be assigned to Infrastructure Ontario. When a project is assigned to Infrastructure Ontario, it conducts a full value-for-money (VFM) assessment that compares the costs and benefits of traditional procurement with an AFP approach. A VFM assessment is completed prior to issuing a request for proposal. In some instances, projects assigned as AFP have been reassigned as traditional projects in response to the VFM assessment.
2. In Ontario only a limited number of contractors have the capacity to undertake large institutional projects. The bundling of capital and operational support services might have further limited competition and reduced value for money.	Before a decision is made to enter into an AFP arrangement, a comprehensive market assessment should be carried out.	MEI/Infrastructure Ontario Response: Since the establishment of Infrastructure Ontario, the agency has routinely conducted market assessments and consultations to ensure that an appropriate level of market capacity is available. The portfolio staging plan is frequently reviewed and adjusted to take into consideration market capacity of contractors, subcontractors, lenders, investors, maintenance services, and so on.

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1. Ministry of Energy and Infrastructure
2. Ministry of Health and Long-Term Care

Issues Noted in Office of the Auditor General Review	Lessons Learned and Recommendations	Infrastructure Ontario/MEI[1]/MOHLTC[2]/ WOHC Response and Current Practice
Value-for-money Assessment		
3. The value-for-money assessment was not based on a full analysis of all relevant factors and criteria and was done too late to allow improvements to be made to the procurement process.	Value-for-money assessments should have relevant and clear criteria, and should be conducted at the earliest stage of the procurement process.	MEI/Infrastructure Ontario Response: In 2007, Infrastructure Ontario published its VFM methodology. The methodology lists all cost and risk items that are considered as part of the VFM calculation. All anticipated costs and risks are documented and reviewed by third-party advisers to ensure that an appropriate level of transparency is maintained during the process. Infrastructure Ontario conducts VFM analysis at three stages during the procurement process: 1) before RFP release; 2) before awarding of contract (preferred proponent selection); and 3) after financial close.
4. The value-for-money assessment could be perceived as biased, as the only way WOHC could receive funding for a new hospital was to follow the P3 approach.	Comparing costs under the traditional approach and the AFP approach should be an objective process to reduce the risk of any bias in comparison.	MEI/Infrastructure Ontario Response: Infrastructure Ontario has produced a publicly available VFM guide that standardizes the methodology for the analysis of all AFP projects and to minimize subjectivity that may arise. The methodology includes an assessment of all AFP costs. The methodology was recently reviewed by the Ministry of Finance's Ontario Internal Audit Division and found to be sound.
5. Despite having established an appropriate due-diligence process to review the work of WOHC's consultants, the Ministry had not followed up and acted on the findings of the reviewers.	Appropriate and timely action should be taken on issues raised during the due-diligence process.	MEI/Infrastructure Ontario Response: Infrastructure Ontario has established a robust due-diligence process, including a project-governance structure that manages and monitors key project approvals and the related decision-making process. Procedures are in place to review, document, and follow up on lessons learned from project to project. Further, management continuously monitors project-related issues through various working groups and project reporting to ensure the timely resolution of those issues.

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1. Ministry of Energy and Infrastructure
2. Ministry of Health and Long-Term Care

Issues Noted in Office of the Auditor General Review	Lessons Learned and Recommendations	Infrastructure Ontario/MEI[1]/MOHLTC[2]/ WOHC Response and Current Practice
6. In comparing the design and construction costs of the traditional procurement approach and the P3 approach, the hospital assumed that there would be no financing under the traditional approach but that the design and construction costs under the P3 would be financed.	To ensure that all options are adequately considered, the decision to build and the decision to finance should be evaluated separately.	MEI/Infrastructure Ontario Response: The Ministry of Energy and Infrastructure evaluates individual projects against policy priorities and to ensure that they are consistent with ReNew Ontario, the government's five-year, $30-billion Infrastructure Plan. Investment decisions are made independently of the assessment of procurement alternatives. Infrastructure Ontario has developed and published a standard VFM methodology that considers financing costs under both models—AFP and traditional procurement.
7. Risk transfer: • The extent to which a properly structured traditional procurement contract could mitigate cost overruns should have been more carefully considered, given that the same contractors were involved regardless of the procurement models. • $95 million in risk transfer to the private sector was not realizable, as there are re-pricing provisions in the project agreement for non-clinical services.	In assigning transferable risks, all relevant factors, including those that mitigate the risks, should be considered. As well, actual experience from previous AFPs should be applied wherever possible. The transfer of risk should be supported by the terms of the project agreement.	MEI/Infrastructure Ontario Response: The AFP model used by Infrastructure Ontario quantifies the risks that would be retained by the public sector under the traditional procurement model using a risk-allocation matrix based on empirical data. Infrastructure Ontario ensures that project agreements are structured such that risks are assumed by the party best able to manage them. Infrastructure Ontario's project agreements have been standardized to include lessons learned on earlier projects to support continuous improvement.
8. Additional costs of following the P3 approach, including interest rate differentials between private-sector and government borrowing and other transaction costs, should have been included in the decision-making process.	All significant costs of AFP should be assessed in the decision-making process.	MEI/Infrastructure Ontario Response: As part of the assessment of procurement alternatives, all AFP costs are considered, including all transaction costs, financing costs, and contingencies. For example, typical AFP-related costs include private-sector financing, private-sector contingencies, bid costs, special-purpose-vehicle fees, and advisory fees.

[1] Ministry of Energy and Infrastructure

[2] Ministry of Health and Long-Term Care

Issues Noted in Office of the Auditor General Review	Lessons Learned and Recommendations	Infrastructure Ontario/MEI[1]/MOHLTC[2]/ WOHC Response and Current Practice
Advisers		
9. Many advisers retained by WOHC were single sourced, and the contracts were open ended and without ceiling prices.	To ensure that advisers are retained at the best possible price, a competitive selection process should be followed. The assignments should be defined with contracts that stipulate the exact deliverables. The work of the advisers should be monitored and a process put in place to ensure knowledge transfer.	MEI/Infrastructure Ontario Response: Infrastructure Ontario has a rigorous internal procurement policy. All contracts are fixed-priced arrangements. Generally, any sole-sourced contracts have been for situations where previous competitive procurements have not been successful—for example, insurance advisory services—and account for less than 3% of all contracts over the past two years. Infrastructure Ontario's project-governance structure includes procedures to review, document, and follow up on lessons learned from project to project. Further, management continuously monitors project-related issues through various working groups and project reporting to ensure the timely resolution of issues. As a result of Infrastructure Ontario's commitment to continuous improvement and standardization, advisory related costs per project are trending lower.
Contract Management		
10. WOHC has yet to establish procedures for monitoring the performance of its private-sector partner.	Hospitals should have adequate procedures in place to verify the performance of contractors. Any resulting adjustments to the unitary payment should be made on a timely basis.	MEI/Infrastructure Ontario/WOHC Response: Infrastructure Ontario is currently developing a comprehensive user guide for hospitals on how to properly administer the project agreement. Further, Infrastructure Ontario is co-ordinating the establishment of a help-desk service that will allow hospitals to call in as issues arise and receive timely input as to available recourses. With respect to monitoring the performance of the Brampton Civic Hospital contractor, WOHC has established formal processes for management of all day-to-day operational issues, performance review, and joint strategic discussions. Further, WOHC is currently establishing a program for auditing the private-sector partner's performance and its monitoring and quality-assurance program and is developing a user guide for administration of the project agreement.

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1. Ministry of Energy and Infrastructure
2. Ministry of Health and Long-Term Care

Issues Noted in Office of the Auditor General Review	Lessons Learned and Recommendations	Infrastructure Ontario/MEI[1]/MOHLTC[2]/ WOHC Response and Current Practice
Local Share of the Capital Cost		
11. WOHC initially had a significant funding shortfall for its share of the cost of the hospital's design and construction and of the equipment. The government will have to cover the shortfall.	Before granting approval for a new hospital, the government should carry out a more comprehensive assessment of whether the hospital has a realistic plan for raising its agreed-to local share of the funding.	MOHLTC Response: In assessing the local share plan, the Ministry of Health and Long-Term Care balances a number of considerations, including the need for the project, cost escalation, and the procurement process against the time it will take to raise the local share of funds, the likelihood that projected revenues will materialize, and potential risks due to cost escalation in the intervening period. The provincial local share policy has since been updated so that, in most cases, hospitals essentially pay 10% of construction and design and 100% of equipment costs.
Accountability and Transparency		
12. There was no standard policy on disclosure practices specific to these P3 arrangements.	To ensure transparency, Infrastructure Ontario should establish and communicate a policy on disclosure of AFP information.	MEI/Infrastructure Ontario Response: Infrastructure Ontario's commitment to transparency is based on the principles outlined in the government's *Building a Better Tomorrow* framework. Infrastructure Ontario has in place a disclosure policy that it follows consistently on all projects. Based on this policy, requests for qualifications are posted on MERX, and all requests for proposals, project agreements, and value-for-money reports are posted for public view on Infrastructure Ontario's website.

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[1] Ministry of Energy and Infrastructure

[2] Ministry of Health and Long-Term Care

Chapter 3
Section
3.04 Child and Youth Mental Health Agencies

Background

The Ministry of Children and Youth Services spent approximately $502 million in 2007/08 under its Child and Youth Mental Health Program. Of this amount, $434 million (86%) in transfer payments was provided to approximately 440 transfer-payment recipients, of which approximately 370 have an ongoing funding relationship with the Ministry. The 40 largest transfer-payment recipients received about half of the total transfer payments.

The transfer-payment recipients include agencies that provide child and youth mental health services, 17 hospital-based out-patient programs, and First Nation and non-profit aboriginal organizations and service agencies, including 27 Friendship Centres. Funding is also provided for the Ontario Child and Youth Telepsychiatry program, which provides access to mental health services in rural, remote, and under-serviced communities; and the Centre of Excellence for Child and Youth Mental Health at the Children's Hospital of Eastern Ontario, which disseminates information on evidence-based practices.

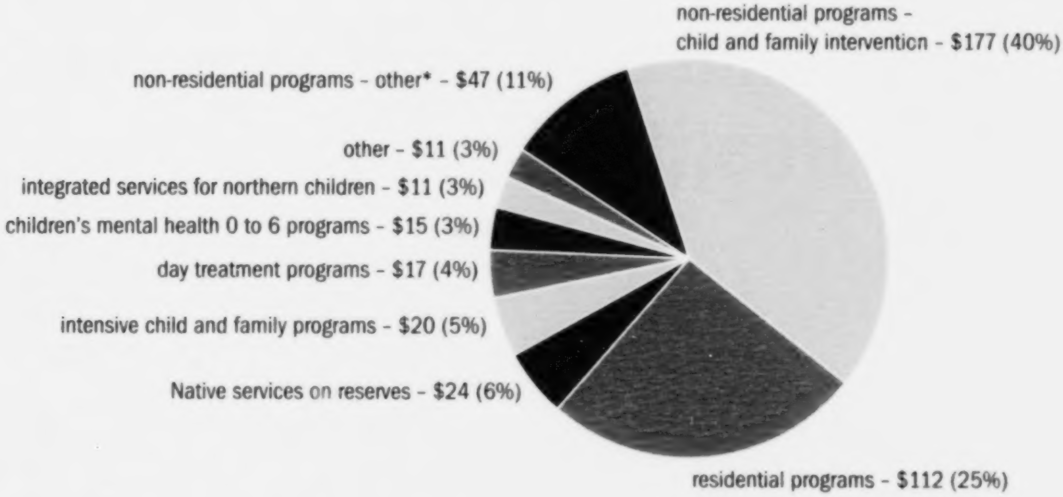
The Ministry also directly operates two child and youth mental health facilities: the Thistletown Regional Centre in Etobicoke and the Child and Parent Resource Institute in London.

These organizations generally provide services to children and youth up to the age of 18 who have mental health needs or disorders and may also be in conflict with the law and to children who may be receiving services from a range of other service systems, such as child protection, youth justice, and so on. Typical services include intake and assessment; group, individual, and family counselling; residential or day treatment programs; and crisis intervention. (See Figure 1 for expenditures by type of activity.)

Although net annual transfer payments under this program have increased by about $119 million since the time of our last audit of the Ministry's Children's Mental Health Services program in 2003 (from $315 million to $434 million in 2007/08), about $40 million or one-third of the increase is due to base funding increases to community-based organizations; the rest is due to new program initiatives or the transfer of activities into and out of the program.

Figure 1: 2007/08 Expenditures Made by CYMH Agencies by Type of Activity ($ million)

Source of data: Ministry of Children and Youth Services



* Non-residential programs – other consists of such things as child treatment, mobile crisis, outpatient programs and access mechanisms.

Audit Objective and Scope

Although we audited the Ministry's administration of its Children's Mental Health Services program in 2003, this year's value-for-money audit focused on the specific agencies providing these services. The audit was conducted in part as a result of a request by Children's Mental Health Ontario (an association of 87 transfer-payment agencies providing child and youth mental health services). We were able to conduct audit work at individual agencies because of the expansion of the mandate of the Office of the Auditor General, effective April 1, 2005, to include value-for-money audits of organizations in the broader public sector receiving transfer payments.

Our audit objective was to assess whether selected Child and Youth Mental Health (CYMH) agencies had adequate policies and procedures for ensuring that:

- children requiring mental health services receive the appropriate care in a timely manner in accordance with legislative and other program requirements; and
- funding provided by the Ministry was spent prudently with due regard for economy and efficiency.

The scope of our audit included a review and analysis of relevant files and administrative procedures, as well as interviews with staff, during visits to four CYMH agencies: Hincks-Dellcrest Treatment Centre in Toronto; Associated Youth Services of Peel; Kinark Child and Family Services, which serves the York and Durham regions and Simcoe, Peterborough, and Northumberland counties, and which also operates a secure-treatment facility in Oakville that accepts referrals of youth from across Ontario; and the Youth Services Bureau of Ottawa. Three of these agencies were members of Children's Mental Health Ontario; one was not. The four agencies between them accounted for approximately $42 million in ministry funding, which is approximately 10% of the total CYMH program funding provided to all CYMH transfer-payment recipients.

In addition, we met with senior representatives of Children's Mental Health Ontario to obtain summary information and to gain a better understanding of issues in the children's mental health sector. We also engaged the services of an academic expert in child and youth mental health services to assist us with the audit and held discussions with a child psychiatrist who had extensive experience in this field.

Before beginning our audit, we developed the audit criteria we would use to attain our objectives, and the criteria were reviewed and agreed to by representatives of the boards and senior management of the four agencies we visited.

Our audit followed the professional standards of the Canadian Institute of Chartered Accountants for assessing value for money and compliance. We set an objective for what we wanted to achieve in the audit and developed audit criteria that covered the key systems, policies, and procedures that should be in place and operating effectively. Finally, we designed and conducted tests and procedures for meeting our audit objectives and criteria.

We also met with staff of the Ministry's internal audit services during the planning phase of our audit. However, since they had not conducted any recent audits either on the Ministry's Child and Youth Mental Health Program or at specific agencies, we were unable to reduce the scope of our audit.

Summary

There is little doubt that child and youth mental health agencies work in a difficult environment. Over the years, agencies have operated without the benefits of a legislated mandate and mandatory funding for their services. In addition, there has been little ministry direction as to what kinds of services should be provided and what the acceptable standards are for the services that are provided, including requirements for access to those services and performance measures. As a result, over the years, agencies have operated with considerable autonomy, which has resulted in a patchwork of services for children with mental health needs both locally and across the province.

The Ministry's "A Shared Responsibility," a new policy framework for child and youth mental health published in 2006, proposed a number of changes to be made in the child and youth mental health sector to address many of these issues. However, these changes are to be implemented over the next 10 years, and it is not yet clear who—the Ministry or the agencies—will take the initiative and be accountable for ensuring that the proposed changes occur on a timely basis.

In the meantime, with regard to the specific services provided by agencies, we found that agencies need to:

- consider investing in early identification initiatives in partnership with local school boards;
- use fewer access points or more collaborative efforts to assess, prioritize, and refer individuals—particularly to non-residential services—to help ensure that needs are assessed consistently and that those most in need are provided with the most appropriate services available;
- maintain more comprehensive and consistent waiting-list information by individual, and work with the Ministry to ensure that it receives reliable information to help it assess the extent of unmet service needs;
- develop reasonable case-management standards for the provision of a broad range of non-residential services, and implement an internal quality-assessment or peer-review process to help ensure that those standards are adhered to; and
- capture and report more meaningful and consistent information with regard to quantitative output measures. As well, although the Child and Adolescent Functional Assessment Scale, which captures assessment information at the beginning and completion of service, is an important component of measuring outcomes and implementing evidence-based service delivery, there is also

a need to establish qualitative benchmarks by individual or by type of program that can then be compared to the actual results.

In addition, the agencies advised us that, since there have been little or no annual funding increases for their core programs—including their administrative activities—over the last 10 years, they have had considerable difficulty in maintaining their core services and to do so have often had to "rob Peter to pay Paul"—that is, use funding other than for the purpose for which it was originally intended. Current funding constraints notwithstanding, agencies need to be more vigilant to ensure that they receive, and can demonstrate that they received, value for money spent. Our recommendations in this regard include:

- Agencies need to establish and/or adhere to competitive purchasing practices and ensure that all paid invoices contain sufficiently detailed information to establish the reasonableness of the amounts billed and are appropriately approved before payment.
- Agencies should acquire vehicles for staff use only when it is necessary and economical to do so. They should also strengthen the controls over reimbursements to staff for use of personal vehicles for work to ensure that amounts reimbursed are reasonable in the circumstances.
- Agencies and the Ministry need to clarify their responsibilities when agencies act as conduits for transferring ministry funds to third parties, particularly when neither the agency nor the Ministry has a contractual relationship with the ultimate funding recipient.
- Agencies, in consultation with the Ministry, need to strengthen board governance and accountability structures.
- Agencies need to establish reasonable workload benchmarks that would enable them to support overall staffing levels.
- Agencies should consider a more collaborative approach to developing and maintaining computerized information systems.

OVERALL AGENCIES' RESPONSE

This is a consolidated response representing the views of the four audited agencies in conjunction with Children's Mental Health Ontario (CMHO). Although there are definite areas of agreement, there are also areas which require further explanation and rationale that support the decisions made by the agencies.

Duly noted in the value-for-money audit is our assertion that core funding for children's mental health services across the province has been eroding for the past decade. As there has historically been little or no annual funding increase for the agencies' core programs over the last 10 years, the agencies have had considerable difficulty in maintaining their core services. This erosion of funding amounts to reduced services for children needing mental health support, in particular prevention and early-intervention programs designed to reach children before their mental health issues are severe, and staff cutbacks. In addition, the lack of funding has damaged the development of infrastructure and administrative capacity as it relates to Human Resources, Finance, Evaluation, and so on, despite program growth and increased complexity in service delivery across the system.

The Auditor General also recognizes that children's mental health services are delivered in this province without the benefit of a legislated mandate. As a result, there is neither a mandatory funding requirement for mental health agencies nor standards for the variety and level of service provided across the province.

This audit process has been a learning experience for all involved. Children's mental health agencies are dedicated and continue to ensure that the best possible services are available to children, youth, and their families. No doubt the findings will help to shape the future of all

children's mental health agencies. We appreciate the opportunity to respond to the observations and recommendations and provide further insight into children's mental health services.

Detailed Audit Observations

CHILDREN'S MENTAL HEALTH OVERVIEW

Research suggests that 15% to 21% of Canadian children and youth are affected by some form of mental health disorder that causes significant symptoms or impairment and requires some form of intervention. As a result, it is estimated that in Ontario, approximately 467,000 to 654,000 children and youth have at least one diagnosable mental health disorder, and there are indications that the disorders are increasing in frequency and severity. For instance, suicide is the second leading cause of death among 10- to 19-year-olds in Ontario, and the suicide rate among young people is rising steadily.

Mental health disorders include social, emotional, behavioural, and psychiatric problems, such as:

- anxiety;
- depression;
- conduct disorder;
- attention-deficit/hyperactivity disorder (AD/HD), and attention deficit disorder (ADD); and
- self-harm.

It is also estimated that only one in six children and youth with a mental health disorder receives some form of mental health service. This is attributable in part to the difficulty in identifying children and youth with mental health issues and referring them to appropriate services, and the fact that the need for mental health services outpaces the sector's capacity to respond.

The potential consequences of not meeting a child's mental health needs include poor academic achievement, conflict with the law, substance abuse, and inability to live independently or hold a job. Many of these problems continue into adulthood and often affect the next generation.

Unlike the Ministry's other two main service streams for children and youth—the Child Welfare system, which is governed by the *Child and Family Services Act*, and the Youth Justice program, which is governed by the *Youth Criminal Justice Act*—where services are mandated in legislation, child and youth mental health services are not mandated by legislation, but rather are promulgated through the awareness of professionals and advocates who recognize the mental health needs of children and youth and their families' struggle with mental health disorders. As a result, children's mental health services can be provided only up to the system's existing capacity, which is determined largely by the amount and allocation of ministry funding rather than need.

Agencies provide a wide range of services and support for children and young people as well as their families, ranging from very clinical, medically based practices to a variety of social services provided by community-based agencies. These services and supports include:

- intake, assessment, and referral;
- parenting programs;
- group, individual, and family counselling;
- day treatment programs;
- residential care and treatment programs;
- crisis intervention; and
- registration in recreational and sports programs.

SERVICE SYSTEM DEVELOPMENT

Before the 1970s, severe children's mental health disorders were treated in institutions, while less severe mental health disorders often remained untreated. In fact, it has only been since 1970 that the children's mental health sector was formally established with the creation of the Children's Services Branch of the Ministry of Health on an experimental basis. In the late 1970s, the program was transferred to the Children's Services Division of the Ministry of Community and Social Services.

However, partly because of the lack of a legislated mandate, children's mental health services were, historically, not developed in an orderly and uniform fashion across the province; nor were they based on data showing which services should be provided in which communities for which disorders. We understand that the Ministry is currently leading a service-mapping project that will guide service and system development in the future.

Most services available under the Child and Youth Mental Health Program are provided by independent, local, not-for-profit transfer-payment agencies that are governed by volunteer boards of directors. The services that each agency provides usually depend on the need as perceived by the agency, its ability to provide the desired services, and the availability of ministry funding. To a large extent, this resulted in a patchwork of children's mental health services across the province.

The formation of the Ministry of Children and Youth Services in 2004 was intended in part to correct this situation and provide leadership on children and youth issues, including children's mental health, and in part to provide for a more co-ordinated, effective, and efficient system of services and support for children and youth and their families.

Currently, child and youth mental health services can be obtained through a number of mechanisms, including the Child and Youth Mental Health Program, which funds a wide range of services; through the medical system—co-ordinated by Local Health Integration Networks (LHINs)—which offers hospital-based services funded by the Ministry of Health and Long-Term Care; to a lesser extent through Children's Aid Societies and school boards; and also by direct purchase from private-sector service providers.

Transfer-payment agencies operate at arm's length from the Ministry and are responsible for managing their own day-to-day operations. They enter into annual service contracts with one of the nine ministry regional offices. These contracts specify, among other things, what services the agency will provide and the amount of funding it can expect to receive.

Although the Ministry deliberately does not involve itself in the day-to-day operations of agencies, it is responsible for overseeing the amount and quality of services provided to help ensure that desired outcomes are met and that the expenditure of Ministry-provided funding is satisfactorily accounted for. The Ministry's oversight process includes regular contact with agency staff, as well as the review and approval of quarterly and annual financial and service reports submitted by each agency.

PREVIOUS AUDITS OF THE CHILDREN'S MENTAL HEALTH SERVICES PROGRAM—1997 AND 2003

Our previous audits of the Ministry's oversight of the Children's Mental Health Services program in 1997 and 2003 concluded that the Ministry was not adequately monitoring and assessing the quality of the services provided by the agencies. As a result, it was our view that the Ministry could not be assured that vulnerable children in need were receiving the care and assistance they needed. More specifically we found that:

- For the vast majority of the Children's Mental Health Services programs funded, neither standards defining acceptable service nor criteria for evaluating service quality had been developed.
- Standards for access to services had not been established, and information about waiting lists and times was not available or provided to the Ministry.

- The Ministry did not effectively measure performance against meaningful performance targets.
- The Ministry lacked the necessary information to make informed funding decisions. In most cases, the Ministry continued to provide agencies with the same amount of base funding as in the previous year without assessing whether the funding was commensurate with the demand for, and the value of, the services to be provided.
- The Ministry's year-end process for reviewing and approving agency expenditures could not effectively detect inappropriate or excessive expenditures.

In February 2004, the Standing Committee on Public Accounts held a hearing to discuss the issues raised in our *2003 Annual Report*. At the hearing, senior ministry officials indicated that they largely agreed with the issues we had raised and that providing better direction to the agencies with respect to mental health services, monitoring the delivery of such services, and assessing the outcomes from the perspective of the children being served were all top priorities. The Ministry also acknowledged that it had "been some time since the Ministry has had a serious look at exactly what services are being provided agency by agency" and acknowledged that without this information it was "difficult for us to, for example, know where every gap in services is." The Ministry noted that it needed to "lay out for agencies in a much clearer way what our expectations are."

To address these and other concerns, in November 2006, the Ministry released "A Shared Responsibility," a new policy framework for child and youth mental health. The framework sets out the goals and priorities to guide changes in the children's mental health sector over the next decade. The intent of the proposed changes is to:

- increase emphasis on health promotion, illness prevention, and early identification of mental health problems;
- enhance timeliness in the provision of services for children and youth;
- promote collaboration across the child and youth sectors and with the adult sector;
- increase consistency in service provision;
- enhance the use of what works in practice; and
- enhance the overall accountability in the children's mental health sector.

The Ministry expects that, when fully implemented at the end of the 10-year implementation period, the policy framework will result in more definitive and consistent outcomes with respect to determining:

- who is in need of service, and who should be prioritized for treatment;
- what kind of treatment is required, and what will be provided; and
- what kind of outcomes can be expected.

In addition to this policy framework, the Ministry advised us that, since the time of our last audit in 2003, it has:

- started to collect and disseminate waiting-time information at an agency, regional, and provincial level;
- established the Centre of Excellence in Children and Youth Mental Health to enhance the evidence base for planning and delivery of mental health services;
- initiated a mapping of mental health programs and services to establish a baseline for future planning; and
- worked collaboratively with the Ministry of Education through the Student Success Leadership initiative to establish mechanisms for joint planning between school boards and mental health agencies.

SERVICE DELIVERY

Access to Services

Children and youth who exhibit symptoms of mental health disorders are most often referred to services through one of four gateways—schools, the child welfare system, families, and physicians.

To help make more consistent decisions about individuals' needs and decide who gets access to what services, the Ministry of Community and Social Services in 1997 issued "Making Services Work for People," a framework for the delivery of services for children and for people with developmental disabilities. Under the framework, each area in which children's mental health services are provided was required to have a single point of access or a collaborative process to decide which individuals referred to it will gain access to specific residential services and support. Although there were no similar mandatory requirements for referrals to non-residential services, the framework encouraged fewer access points or a more collaborative effort to assess and prioritize individuals in need in a particular area and, in turn, to refer them to the most appropriate non-residential services and support available.

In practice, each of the areas for the four agencies we visited had established a common access mechanism or access centre for residential services. Two of these consisted of a collaborative effort by which representatives from each of the residential service providers met regularly to review all applications for residential services in their area and determined the individual's eligibility for residential service as well as the most appropriate placement. In the third area, one agency was responsible for assessing the eligibility of all individuals seeking residential services and for determining the most appropriate placement. Although the fourth area also had one agency responsible for co-ordinating residential placements, this process was not working as intended. Instead of assessing individuals for eligibility for residential placements and determining the most appropriate placement, it simply referred individuals to a number of residential service providers, which were expected to make the eligibility determination and to decide whether to accept them into their program.

Our review of access mechanisms for non-residential services for the areas served by the four agencies we visited found that they varied significantly:

- In one area, the local access centre assessed most individuals seeking services and referred them to the most appropriate non-residential program in their jurisdiction.
- In the remaining three areas, there was no centralized or collaborative effort for assessing and prioritizing the needs of individuals and referring them to either all or most of the available programs that could meet their needs.

In the latter instance, individuals were essentially referred to, or sought services from, a specific service provider without necessarily having full knowledge of all available services in an area. As a result, there was little assurance that individuals were approaching the most appropriate service provider for their needs, that the needs of individuals were assessed consistently, and ultimately that the most appropriate services available were provided to those most in need. In addition, given the history of lack of co-ordination between the various service streams and a sense of insularity in working within one's own agency, co-ordination of services with other agencies or sectors would be problematic.

We also noted that two of the agencies had established formal eligibility criteria for most of their programs, whereas the other two had not. However, we noted that, regardless of whether formal eligibility criteria were in place or not:

- Agencies felt compelled to provide some service to anyone who asked for it regardless of the outcome of the Brief Child and Family Phone Interview (BCFPI) (a screening tool that is used by most agencies and that provides standardized scores on specific aspects of mental health).
- In most cases, there was no documentation on file to indicate why a particular placement was considered appropriate.

- Agencies told us that they try to provide service to individuals in the least intrusive setting, which is often one of the lowest-cost alternatives. However, the cost of the placement was generally not the determining factor in the placement decision.

Given the funding constraints in the child and youth mental health sector and the emphasis on providing services to children and youth who have been referred to it, most agencies understandably provide service to the higher-risk cases first. As a result, cases that are perceived as less risky are de-prioritized and may become more serious or problematic and less amenable to improvement.

In addition, there is little opportunity or incentive in most cases to invest in prevention or early identification. For instance, agencies told us that it is often at school that signs of mental health disorders in a child can first be detected. If counselling or other services are provided at an early stage, these problems can often be addressed with the result being a happier, more socially adaptable child. However, unless the educators are well trained in mental health issues, principals and teachers may be unaware of what symptoms to look for and uncertain what their role should be or who they should be contacting if they believe a child does need help beyond what can be offered at the school.

RECOMMENDATION 1

To help ensure that the most appropriate services are provided to those individuals most in need, agencies should work closely with all service providers in their area to ensure that the intent of the policy frameworks of the Ministry of Children and Youth Services are adhered to. Therefore, there should be:

- a single point of access or a collaborative placement process for all available residential services and support;
- fewer access points or more collaborative efforts to assess and prioritize individual's needs and refer them to the most appropriate non-residential services and support available;
- documentation to support the reasons for a particular placement; and
- research into best practices for ensuring that a community's schools have the knowledge to be pro-active partners in helping children in need.

AGENCIES' RESPONSE

We generally agree with these recommendations. A single point of access for residential services in each community along with a more co-ordinated and collaborative placement process for non-residential services and supports would be a positive step. It should be noted that individual communities have put some similar but limited processes in place with limited funding from the Ministry.

To be effective, the collaborative approach will need to include the education sector as well as children's mental health and be funded appropriately.

Waiting Lists

Timely access to mental health services is often a critical determinant for ensuring the best possible outcome for children in need of services. When requests for service exceed an agency's capacity to supply them, waiting lists are maintained.

Our review of waiting lists maintained at the four agencies we visited noted that, although there were generally very short or no waiting lists for residential services at the time of our visit, lists for the various types of non-residential programs varied significantly but often ranged from three to six months. However, the accuracy and usefulness of the waiting-list information is questionable for the following reasons:

- Agencies generally kept separate waiting lists for such things as intake, assessment, and

their various individual programs; this made it difficult to assess the overall waiting time for service at an agency and virtually impossible to assess the waiting time for specific services in a particular geographical area.
- There were no consistent criteria for placing individuals on, or taking them off, waiting lists, which can result in significant inconsistencies in waiting-list data across the province.
- When a person was taken off a waiting list, his or her name was normally deleted, with the result that there was no record of the length of time the person had waited for service.
- Waiting lists were generally kept either chronologically or alphabetically and did not prioritize those individuals most in need of service.

Information gathered from the BCFPI at an agency level is made anonymous and sent to Children's Mental Health Ontario, which gives the Ministry and service providers quarterly and annual aggregate reports an overall average waiting times. The average waiting time is calculated from BCFPI data provided by the agency and is based on the time from when the BCFPI was first completed until the individual was provided with service. However, the overall average waiting time as calculated is not meaningful because:

- the BCFPI data submitted are often inaccurate or incomplete; and
- the average waiting time for everyone seeking service from an agency is not a good indicator of unmet service need because of the significant variability of service needs amongst all the individuals waiting for service.

RECOMMENDATION 2

In order to have better information about unmet service needs and ensure that those most in need are provided with service first, agencies should:

- maintain more comprehensive, consistent, and meaningful waiting-list information by individual from the time a person is referred to the agency to the time he or she is provided with service; and
- work with the Ministry of Children and Youth Services to ensure that the Ministry receives accurate waiting-list information from data collected through the Brief Child and Family Phone Interview or other such processes on a timely and consistent basis to help it better monitor and assess unmet service needs.

AGENCIES' RESPONSE

The Ministry is aware of our more detailed waiting-list data collection; however, it has requested only that average waiting-time information be provided every three months. More resources will be needed to make more detailed tracking and analysis possible. In addition, a unique identifier will be required to maintain waiting lists that are more client-specific.

Case Management

The *Child and Family Services Act* and ministry service agreements with agencies specify certain requirements that agencies must meet when providing residential care. For example, a number of agencies must complete a Child and Adolescent Functional Assessment Scale (CAFAS—a tool used to assess the degree of impairment in children and to evaluate treatment outcomes) upon entry and exit from service; prepare plans of care and periodically review and update them; maintain progress notes; conduct dental and medical examinations; and obtain consent for service and for such things as emergency medical treatment and the use of psychotropic drugs.

Our review of a sample of case files for individuals receiving residential care at the two agencies that provided full-scale residential service found that, although these requirements were generally adhered to, there were some exceptions:

- At one agency, approximately one in 10 of the files reviewed did not have an opening CAFAS and two in 10 did not have a closing CAFAS when it was required.
- At one agency, 13% of the files reviewed did not contain a plan of care, and the mandatory 90- and 180-day updates were often prepared late, by up to 78 days.
- Some medical and dental examinations were not completed at the time of admission as required.
- In many cases, the mandatory consents to service, to the use psychotropic drugs, and to obtain emergency medical treatment were not on file.

The vast majority of services provided by agencies is delivered in a non-residential setting, and the only legislated or Ministry-mandated case management requirement for their services is to complete a CAFAS evaluation upon the individual's entry to and exit from service. However, three of the four agencies we visited had developed their own case management policies and procedures for many of their non-residential programs, as is required by CMHO's accreditation process. We note that, although the fourth agency had prepared a file review checklist that was to be completed upon discharge of an individual from service, to complete the checklist after service is completed is not an effective case management practice.

Our review of a sample of case files at the three agencies that had developed their own case management policies and procedures found that their internal policies were often not complied with. For example, in many cases:

- Neither opening nor closing CAFAS evaluations were on file.
- Consent to service had not been obtained.
- Plans of service were missing.
- Quarterly progress notes were not completed.

We did note that two of the four agencies visited had successfully implemented either an internal quality-assessment-team or a peer-review process that reviewed and assessed a sample of client files in relation to their own case management practices; the other two agencies had no such process. The internal quality assurance reports prepared by these two agencies noted some of the same problems we found in our own file review and often attributed the deficiencies to a lack of adequate or timely documentation or proper sign-off.

RECOMMENDATION 3

To help ensure that every person receives the quality services that he or she needs, all agencies, in consultation with the Ministry of Children and Youth Services, should:

- develop case management standards for their non-residential programs; and
- develop a periodic internal quality-assessment or peer-review process to help ensure that case management standards are being met.

AGENCIES' RESPONSE

CMHO recently updated its Accreditation Program Standards, and increased the number of standards that are mandatory in order to ensure quality service delivery. A broader adoption of standards will be encouraged.

Evidence-based Service Delivery

Due to increasing program costs and service demands and limited resources, it is all the more critical for agencies to deliver programs that have a proven track record or are evidence-based practices. Research in this regard has been developing over the past decade. The areas for which there is the most literature on effective treatment for children and youth are anxiety; depression; oppositional, aggressive, and antisocial behaviour; social skills; and self-esteem. The Provincial Centre of Excellence for Child and Youth Mental Health was established in part to research and disseminate information about evidence-based practices to the child and youth mental health sector.

Our review of programs at the agencies visited noted that, while some programs being delivered were evidence-based practices, many others were not.

There are essentially two types of performance measures for programs such as child and youth mental health services:

- quantitative program-output measures, such as the number of clients served and the number of direct service hours provided; and
- qualitative outcome measures that evaluate changes in a client's condition as a result of services provided.

Both types of measures are necessary for determining whether an agency's expectations were met and whether the services provided represent value in relation to their cost.

With respect to an agency's quantitative measures, we found that each of the four agencies prepared cumulative quarterly reports that are submitted to the Ministry and that compare, among other things, the number of persons served and the number of direct service hours provided to the targets established in their contractual agreement with the Ministry. However, for purposes of comparison, these reports would not be all that useful because:

- Everyone is counted the same way regardless of the extent and type of service that he or she received. For example, a person would be counted as one whether he or she attended a single one-on-one session in the year or many sessions over the course of the year.
- At least one agency included cancelled and missed appointments in the performance statistics it reports, a practice that in our view is misleading.
- In many cases, agencies were unable to provide supporting information to corroborate the completeness and accuracy of the information contained in the quarterly activity reports they submitted to the Ministry.

With respect to the qualitative performance measures, as noted in our *2003 Annual Report*, the Ministry required agencies to adopt CAFAS to monitor the level of client functioning at intake and the time of exit from service for most programs where interventions were expected to last more than a month. Information is entered into the CAFAS computerized information system by agency front-line staff and is periodically uploaded to the CAFAS in Ontario team at the Hospital for Sick Children. The CAFAS in Ontario team in turn produces a quarterly report that compares an agency's aggregate CAFAS data to the comparable regional and provincial aggregate data. It also produces for the Ministry an annual report that summarizes CAFAS data from across the province. Although the introduction of CAFAS is an important component of measuring outcomes and implementing evidence-based service delivery, and the reports generated contain a wide range of detailed information, they are not yet reliable enough to be fully useful for the following reasons:

- Raw CAFAS data reported to the Hospital for Sick Children have generally not been reviewed or edited and, in some cases, have been known to be incomplete or to contain duplicate information. Recognizing this led at least one agency to recently institute a process to verify the completeness and accuracy of the data before they are submitted and has undertaken to improve the reliability of the data through increased training of staff.
- Even if the data were more reliable, their use as a performance measurement tool for individual agencies or their programs would be enhanced if there were established benchmarks against which an agency's aggregate CAFAS score or the scores of specific programs could be compared. As well, comparing an agency's average score to other regional and provincial averages could well provide misleading information about the results achieved by particular individuals or by specific programs or services. For example,

although on a provincial basis, 75% of children and youth show improved functioning, it is not at all clear whether the extent of improvements are acceptable, represent the best possible outcome, and ultimately represent value for money spent.

However, we note that two agencies have developed the capacity to analyze their own CAFAS data and prepare reports on the results achieved by their various programs and services. In our view, this represents a best practice that should be adopted by all agencies.

RECOMMENDATION 4

In order to help demonstrate that children and youth with mental health needs have been helped as much as possible by the services they receive, agencies, in consultation with the Ministry of Children and Youth Services, should:

- continue the move to deliver proven programs using evidence-based practices to make the best use of available child and youth mental health funding;
- report more meaningful and consistent information about the quantity of services they provide; and
- establish more detailed or meaningful qualitative benchmarks, by individual and by type of program, to which the actual results achieved can be compared.

AGENCIES' RESPONSE

Children's mental health agencies are committed to ensuring that the best possible mental health services are available to children, youth, and their families. Delivery of evidence-based practices will produce positive outcomes for those we serve.

The suggestion by the Auditor General to adopt a "best practice" of having each agency develop the capacity to analyze its own CAFAS data and prepare reports can be realized only with resources from the Ministry.

The new version of CAFAS, currently in development, will allow for efficient program evaluation and comparison across regions. Our ultimate goal is that all services delivered by children's mental health providers become evidence-based and result in positive clinical outcomes for participants.

AGENCY MANAGEMENT AND CONTROL

Overview

As detailed in Figure 2, total transfer payments to child and youth mental health agencies have increased fairly steadily over the past 10 years. However, most of the net increases resulted both from the funding of new direct-service initiatives and from the transfer of activities in and out of the program. Over the same period, annual ministry funding increases for agencies' core programs, including their administrative activities, have, until very recently, been minimal or non-existent (see Figure 3).

In our audit of the Ministry's administration of the Children's Mental Health Services program in 2003, we noted that giving agencies the same amount of base funding as in previous years or

Figure 2: Transfer Payments to Child and Youth Mental Health Agencies, 1998/99-2007/08 ($ million)

Source of data: Ministry of Children and Youth Services

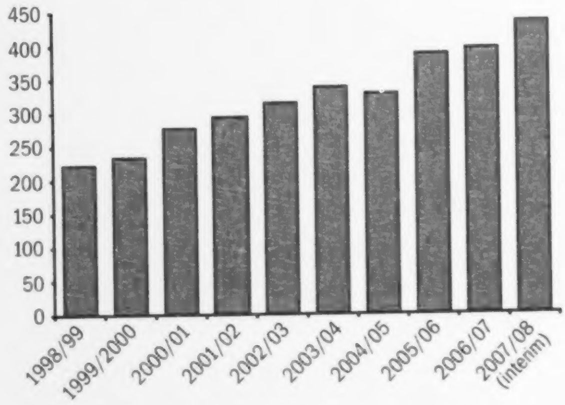


Figure 3: Percentage Increase to Base Funding for Transfer Payments to Child and Youth Mental Health Agencies, 1998/99–2007/08

Source of data: Ministry of Children and Youth Services

Fiscal Year	Increase (%)
1998/99	0.0
1999/2000	0.0
2000/01	1.0
2001/02	1.5
2002/03	0.0
2003/04	1.0 (pay equity)*
2004/05	1.0 (pay equity)
2005/06	3.0 (base) 0.75 (pay equity)
2006/07	0.0
2007/08	5.0

* Some agencies received an additional 4.25% for unpaid pay-equity obligations.

minimal across-the-board increases, and providing funding for new initiatives without any needs assessment, may result in similar services throughout Ontario being funded at significantly different levels; thus funding inequities between agencies are perpetuated. In addition, questionable items may be funded and funding provided for specific agreed-to purposes may be spent for other purposes.

We also noted that when funding to agencies is not based on assessed need, those agencies facing significant across-the-board cost increases had to eliminate services even in the face of increased service demands.

In light of the significant variability in the types of programs delivered by transfer-payment agencies and the fact that the Ministry does not involve itself in the agencies' day-to-day operations, it is all the more critical that all agencies have strong financial controls and business practices to ensure that they operate prudently and offer quality services in a cost-effective manner. Our observations about the agencies' financial controls and business practices follow.

Purchasing Policies and Procedures

Most large private- and public-sector organizations require that goods and services be acquired through a competitive process that seeks to achieve the best value for money spent and promotes fair dealings and equitable relationships with vendors. For example, after our audit of Children's Aid Societies in 2006, the Ministry issued a policy directive requiring that Children's Aid Societies:

- establish their own procurement procedures for goods and services under $25,000;
- use an open and transparent competitive process for the purchase of goods valued at over $25,000; and
- consider at least three vendors when purchasing services valued at between $25,000 and $100,000; and use an open and competitive process when purchasing services valued at over $100,000.

Our review of purchasing policies and procedures at the four agencies visited found the following:

- Two agencies had no policies and procedures requiring the competitive acquisition of goods and services.
- One agency had a policy requiring that "major" purchases be acquired competitively "whenever it was possible or prudent to do so." However, what was considered a major purchase was not defined, nor were the circumstances under which it was not possible or prudent to follow a competitive process.
- Another agency required at least two quotes when the value of the purchase was over $500 or the term of the commitment was for more than one year.

Regardless of whether or not an agency had policies and procedures requiring the competitive acquisition of goods and services, in many instances we did not find any evidence that goods and services were acquired competitively.

We also found that the agencies did not have policies about when certain discretionary types of expenditures could be made. These included, for example, expenditures for:

- staff meals and hospitality;
- overnight accommodations;
- international travel; and
- client and staff functions and gifts and appreciation awards.

As a result, practices varied significantly. For example, at one agency, senior management were given gift cards with a total value of $18,000 and individual values of up to $1,500 as a non-taxable bonus, even though they should have been taxable. As well, $4,200 was spent on a staff member's retirement function.

RECOMMENDATION 5

To help ensure that expenditures are reasonable and represent value for money spent while promoting fair dealing with vendors, agencies, in consultation with the Ministry of Children and Youth Services, should:

- establish requirements for a competitive process for major purchases of goods and services; and
- establish clear policies, approved by each agency's governing board, for the circumstances and amounts in which certain types of discretionary expenditures, such as meals, hospitality, client and staff functions and gifts, and appreciation awards, will be paid.

AGENCIES' RESPONSE

We agree with this recommendation, although in many cases there was evidence of a competitive purchasing process. We will endeavour in future to comply with updated policies for competitive purchases and discretionary expenditures such as those noted by the Auditor General. For example, one agency has already identified and implemented a new process to encourage compliance with the updated policies.

Acquisition of Professional Services

Agencies acquire a broad range of services from professionals such as psychiatrists, psychologists, lawyers, accountants, and IT professionals. We noted many instances where:

- There was no evidence as to how an individual or firm had been selected.
- There were no written agreements detailing the basis upon which services were to be provided or the way in which the amounts billed were to be determined. When agreements were shown to us, they were often long out of date, by up to nine years.
- There was no attempt to establish the qualifications of the individuals or firms providing the service or to evaluate their performance periodically.

In addition, our review of a sample of invoices for professional services found that they frequently lacked sufficient detail to permit an assessment of whether the amount billed was reasonable and appropriate or even that the services had actually been provided. In many cases, invoices simply showed the total amount billed without any details as to the number of hours billed, the rates charged, or the clients served.

RECOMMENDATION 6

In order to help ensure that they receive value for money spent for professional services and promote fair dealing with vendors, agencies should:

- document the basis on which professional individuals or firms were selected and the way in which the reasonableness of the amounts to be paid was determined;
- for major contracts, enter into formal written agreements detailing the basis under which services are to be provided and paid for and periodically evaluate the results achieved; and

- **ensure that invoices contain enough detail that the reasonableness of the amounts billed and paid can be assessed.**

[illegible]

This is a reasonable recommendation and will be implemented.

General Expenditures and Use of Agency Credit Cards

Agencies often did not specify in writing who could approve the purchase of specific goods and services or who could approve individual payments, a practice that is one of the prerequisites for maintaining good internal financial controls.

Our review of a sample of payments made by the agencies we visited for a wide range of goods and services found some cases where the supporting invoice could not be found and many cases where the invoices lacked sufficient detail to show what was acquired and whether the amounts paid were reasonable.

Our review of payments where detailed invoices were available noted a number of payments for items that were questionable or uneconomic in our view. The following are some examples:

- We were advised that agencies often buy gift cards to give to youths to enable them to purchase food and other necessary items rather than providing them with cash advances. In many cases, gift cards with individual values of up to $200 were purchased from such stores as Wal-Mart, No Frills, Tim Hortons, and Pizza Pizza with no indication as to whom they were given to. One such purchase—totalling $5,000—was made during the last week of the fiscal year.
- Access to taxi chits was often not well controlled. In addition, monthly invoices from taxi companies were paid without reconciling the amounts charged for individual trips to the taxi chits signed by clients or staff members and without determining what the trips were for.
- Four senior staff members were sent to a conference in Boston at a cost of $25,000, which included $1,500 for a round-trip airfare and hotel accommodations of up to $500 per person per night.
- Meal and hospitality expenses were frequently paid for without providing a reason for doing so and assessing the reasonableness of the amounts.
- Payments for both land-line and cell-phone service frequently seemed excessive. For example, we noted that two individuals each incurred over $1,100 in roaming and long-distance charges while attending a conference in the U.S.
- $44,000 in program funding was paid to a consultant to prepare a report on how the agency could maximize and diversify its revenue through enterprise development. However, the recommendations of the report were never acted upon because the agency did not have the necessary startup funds.
- $30,000 was spent by one agency to produce 750 copies of an annual report, an amount that is equal to $40 per copy, whereas another agency produced a similar annual report at approximately one-third of that price.

With respect to the use of agency credit cards, we noted the following:

- For many purchases, there were no detailed receipts or other supporting documentation as to what was purchased and why it was considered an agency expense.
- In some cases, agency credit cards were shared between different employees or temporarily assigned for short-term use, practices that significantly weaken control over the use of the cards.
- Credit-card balances were generally paid every month to avoid interest charges but often without review and approval of the

amounts billed and paid. In some cases the statements were not reviewed and approved until long after the fact. For example, in one case, we noted that the credit-card statements for one staff member for the months November 2006 to October 2007 inclusive, totalling $4,300, were reviewed and approved in December 2007, and in another case five statements totalling $14,300 were reviewed five months after the fact.

RECOMMENDATION 7

In order to help ensure that all payments made are reasonable in the circumstances and can be demonstrated to be so, agencies should:

- formally delegate to specific persons the authority to initiate and approve purchases and to authorize payments, and emphasize to those persons the need to be vigilant in order to obtain value for money spent;
- obtain and keep receipts and invoices that are detailed enough to establish the reasonableness of all the amounts billed and paid; and
- review and approve credit-card statements more promptly.

AGENCIES' RESPONSE

We agree with this recommendation, and it will be implemented. It should be noted that all of the expenses examined in the audit were business-related in our view.

Use of Agency Vehicles and Reimbursement for Use of Personal Vehicles

Three of the four agencies we visited had very few (one to six) owned or leased vehicles; the fourth agency maintained a fleet of 33 vehicles. Of these, 20 were assigned to senior staff members for their exclusive use and treated as a taxable benefit, and the remaining 13 were kept at various program locations for use by local staff.

At the latter agency, staff who have a vehicle assigned to them are expected to maintain a vehicle usage log and report to the agency monthly the total number of kilometres driven for business and personal use. Our review of a year's summary information reported to the agency for the use of all 20 assigned vehicles, and a sample of vehicle usage logs, noted the following:

- Vehicle-use logs did not indicate the start and end points for each trip or its purpose; thus it was impossible to verify the reasonableness of the distance driven or the distinction between business and personal use.
- There was no evidence that the agency periodically reviewed and assessed the reasonableness of the vehicle-usage information reported to it.
- Many of the vehicles were driven significantly less than 22,000 kilometres per year for business use, which is the threshold above which the Ministry of Transportation has determined it is economical to provide an individual with a vehicle owned or leased by the employer. For example, 10 vehicles had been driven less than 10,000 kilometres for business use, and one as little as 2,850.
- The reported personal distance driven for all 20 assigned vehicles averaged 51% of total distance and, in several cases, was over 80%.

At all agencies, employees who do not have access to an agency vehicle are reimbursed per kilometre when driving their own vehicle for business use. Our review of a sample of such travel claims noted that they frequently lacked sufficient details about the starting and ending points and reasons for travel; this made it difficult or impossible to determine the reasonableness of the amounts claimed and paid.

RECOMMENDATION 8

In order to help ensure that all of their transportation requirements are acquired economically, agencies should:

- ensure that the number of vehicles they own or lease is justified by an assessment of their transportation needs;
- periodically review and assess for reasonableness the usage information for owned or leased vehicles; and
- ensure that claims for the use of personal vehicles for business purposes contain sufficiently detailed information for reviewers to confirm the reasonableness of the amounts claimed and paid.

AGENCIES' RESPONSE

Although we agree with this recommendation, it should be noted that personally assigned vehicles are used for business and personal use. Personal-use mileage is reimbursed by the employee.

It is our view that personally assigned vehicles as a taxable benefit are a cost-effective component of compensation.

Ministry Transfer of Funds and Funds Held in Trust

During our visits to agencies, we noted instances where the Ministry had either transferred significant amounts of money to the agencies very late in the fiscal year or had provided, during the year, funding that was essentially to be held in trust. Our review of several of these transfers noted the following:

- One agency received $435,000 from the Ministry in the last week of its 2006/07 fiscal year. On instructions from the Ministry, most of these funds were distributed to other organizations shortly before year-end.

  Similarly, the same agency received $1.2 million from the Ministry during 2006/07 under a three-year special agreement; $300,000 of the money was received in the last week of the year. This amount is also to be redistributed to other organizations upon instructions from the Ministry, although at least $825,000 was unspent at year-end and was shown as deferred revenue on the agency's balance sheet.

  The Ministry's instructions for redistributing these funds notwithstanding, it was not evident how the reasonableness of the amounts to be transferred was determined or who was responsible for ensuring that the funds were used for the intended purpose. In addition, although the agency is expected to account for the expenditure of these funds either through its annual program expenditure reconciliation or otherwise, it would appear that no one is responsible for the results that are to be achieved with these funds.
- Another agency received over $1 million during the last week of its 2006/07 fiscal year. This amount was for a capital project that had already been completed and financed by the agency. When it was determined that the amount provided exceeded the agency's requirement by over $340,000, the agency was instructed to keep the excess funds for use in subsequent years. At the time of our visit in April 2008, a year later, none of the funds had been spent.

RECOMMENDATION 9

When agencies act as a conduit for transferring funds from the Ministry of Children and Youth Services to third parties, they should consult with the Ministry to clarify their responsibilities. In particular, this clarification should specify:

- who is responsible for assessing the reasonableness of the amounts transferred to third parties and ensuring that the funds are actually used for their intended purpose; and

- who is responsible for the results that are expected to be achieved with those funds.

AGENCIES' RESPONSE

We agree with these recommendations and recognize the need for accurate and clear records, direction for the use of funds, and identification of results expected.

Agency-board Governance and Accountability

As previously noted, agencies are governed by independent boards of directors often consisting of between 10 and 15 volunteer members. Board members are usually appointed for one- to three-year terms and are reappointed or replaced at the annual general meeting.

On the basis of our discussion with board members and a review of board meeting minutes, we made the following observations about board governance and accountability:

- As is the case with the not-for-profit sector, agencies have no memberships or broader interest groups to which they must report about operations and the prudent use of funds. However, although they advised us that they are accountable to a variety of community interest groups, there are no formal processes for that accountability to occur. For example, in one case, the board reported to the agency's full-time staff members at their annual general meeting, and the staff members in turn reappointed the board.
- Contrary to requirements, the boards did not affirm to the Ministry that they collectively had the required skills and expertise to discharge their responsibilities and that an appropriate governance and reporting structure was in place.
- With one exception, board members were not required to declare actual or potential conflicts of interest even though, in at least one case, a conflict of interest did exist and was not declared.

RECOMMENDATION 10

Agencies should continually assess their options for strengthening board governance and accountability structures. For example, agency membership could be extended to include children's advocates or individuals representing the interests of service recipients, as is done by some Children's Aid Societies.

AGENCIES' RESPONSE

Board members of children's mental health agencies, like members of all non-profit boards such as hospitals, universities, and community colleges, are dedicated individuals who volunteer their time, assume significant liability, and provide a necessary and relevant service representing their communities. Our board members bring personal and professional backgrounds that ensure that there is strong governance and accountability in our agencies. We agree that we should periodically assess how board governance and accountability might be strengthened.

Human Resource Management

Staff salaries and benefits usually account for up to 80% of an agency's overall expenditures. As a result, the allocation of staff to an agency's various activities and the management of the human resource function is one of the most critical aspects of ensuring that an agency is operating efficiently and effectively.

We noted that the assignment of staff to various areas was very informal. For example:

- For many programs and activities, workload benchmarks, such as staff-to-client ratios or time budgets for specific activities, which would provide guidance to supervisory staff, were often not established.

- Where workload benchmarks were provided to us, they were relatively old, in one case 15 years old, and the basis for their determination and their reasonableness under current circumstances were not clear.
- Although front-line workers were required to track direct service hours for ministry reporting purposes, none were required to report where they had spent all of their time each week.

We noted that most residential homes were normally staffed fully throughout the year even though many had significant vacancy rates for extended periods. For example, one home that was staffed for eight residents had an average of only three people living there. This contributed to the relatively high cost of almost $1,000 per day to care for each resident.

Given the nature of the services that the agencies provide and the vulnerability of the clients served, it is essential that agencies hire qualified and competent staff, provide both initial and ongoing training, and periodically evaluate their performance. Most agencies have established requirements in these regards, although there were no processes in place to ensure that the requirements were complied with.

Our review of a sample of personnel files noted many instances where the established requirements were not followed, as in the following examples:

- Documentation concerning pre-employment interviews such as rating sheets, criminal and other reference checks, and verification of qualifications were often not on file.
- There was often no evidence of initial and ongoing training.
- The mandatory annual performance appraisals were frequently not on file.

RECOMMENDATION 11

Agencies should establish reasonable staff-to-client or other workload benchmarks as guidance for supervisory staff and to support overall staffing levels. They should also have supervisors perform spot checks of personnel files to help ensure that hiring requirements such as background checks and other human-resource-management requirements are followed.

AGENCIES' RESPONSE

We agree with the validity of this recommendation. It should be noted that the erosion of agency infrastructure has contributed to a limited ability to stretch administrative supervisory capacity. In order to implement this recommendation fully, agencies will have to increase their staff, which will require an increase in funding. Although documentation is sometimes absent, the hiring of qualified staff and the performance of background checks are standard procedure.

Capital Assets

Agencies own a variety of fixed assets such as real estate, computer systems and hardware, office furnishings and equipment, and typical furnishings for residences, including electronic devices such as televisions and DVD players. We made the following observations about the acquisition, management, and control of capital assets:

- Contrary to ministry requirements, we noted a number of instances where the Ministry's interest in real estate purchased with ministry funding was not registered on the title or was registered long after the fact.
- Although two agencies did a good job of maintaining up-to-date lists of capital assets, tagged their capital assets, and periodically verified their existence and location, the other two agencies did not. As a result, there

was little assurance that assets purchased by those agencies were safeguarded and properly accounted for.

- In one case, an agency kept a fairly substantial building empty for 18 years at a significant opportunity cost and maintenance expense.
- One agency built the first of four planned residential homes to house up to seven individuals. The cost, excluding land, was more than $1 million. There was insufficient evidence to show that the agency had adequately assessed its requirements for such accommodations or had sought the most economical means to meet those requirements.

RECOMMENDATION 12

All agencies should ensure that the acquisition and retention of their capital assets is warranted and that they are properly safeguarded and accounted for.

AGENCIES' RESPONSE

We agree with this recommendation. With respect to the empty building, the agencies would like to note the following:

- The building referred to remained vacant because of the difficulty in finding a suitable program tenant to continue its use as a residence for children and youth with mental health issues so as to ensure the continuation of the residential zoning designation as a children's residence.
- It should also be noted that the building, because of its location in the middle of the agency's campus, is effectively non-saleable.
- Many proposals submitted to the Ministry were for needed programs to be offered at this site; they included its use as a stabilization unit, an assessment centre, and a residential treatment unit for adolescents. Yet funding could not be secured. In some situations, funding was available for capital improvements but not for operating costs, or vice versa.

With respect to the residential home, despite the lack of supporting documentation, it is our view that extensive research was conducted and due diligence was used to ensure that construction materials and products were acquired at best value for dollar. Products chosen were determined to be the most suitable given the requirements for durability, sustainability, and cleanliness in order to meet client-related service needs in a quasi-institutional setting.

Computerized Information Systems

Agencies have a number of computerized information systems for such things as financial accounting records and maintaining confidential client information. We noted that, although each agency generally develops or acquires and maintains its own computer systems, the individual systems have much in common. As a result, given that there are hundreds of agencies, more collaboration among agencies in acquiring and developing computer systems could be more economical in our view.

Our review of the individual systems at the agencies we visited noted a number of control weaknesses and instances where best practices were not followed, as in these examples:

- Passwords to access computerized systems often did not comply with minimum complexity standards, and there were often no limits on the number of unsuccessful attempts to log into the system that could be made before access was denied.
- Terminals often did not have a lock-out function after a specified time of inactivity.
- For one of three agencies that used outside service providers, there were no guarantees that confidential data in the hands of outside service providers were being safeguarded.

- There was a risk of a loss of data stored at the agencies because data backups were kept on site for as long as 30 days before being transferred off site. Most organizations transfer data off site at least once a week.
- User manuals were out of date.
- In one case, an agency's server was installed in the furnace room, which is not a suitable environment for a server.

RECOMMENDATION 13

All agencies should strengthen their controls over their computerized information systems, especially with respect to security of confidential client data. Collaboration between agencies could be a more cost-effective approach to doing so as opposed to each agency developing and maintaining its own system.

AGENCIES' RESPONSE

This is a reasonable recommendation, and agencies will welcome increased funding in order to implement greater security, better sharing of information, and regular maintenance with respect to our computer systems.

Chapter 3
Section
3.05

Ministry of Transportation

Commercial Vehicle Safety and Enforcement Program

Background

The Ministry of Transportation (Ministry) has a mandate to provide Ontarians with a safe, efficient, and integrated transportation system. Its Road User Safety Division (Division) focuses on improving safety and security for road users, and its activities include the regulation of commercial vehicles operating in the province and enforcement of safety standards. During the 2007/08 fiscal year, the Ministry spent over $39 million on its commercial vehicle enforcement program.

Ontario is one of the major transportation corridors for freight movement through Canada and the United States. Ministry data indicate that there was a 32% increase in commercial vehicle traffic over the 10-year period from 1995 to 2004, with approximately 73 million truck trips in Ontario annually.

Owners of commercial vehicle businesses (known as operators) in Ontario are required to register with the Ministry. This requirement also applies to out-of-country operators whose commercial vehicles travel into Ontario. There are more than 200,000 operators registered with the province, and these operators report having over 1.2 million commercial vehicles, including 30,000 buses.

The Ministry maintains 37 fixed and about 70 temporary roadside inspection stations along Ontario highways. Of the Division's 416 staff, about 250 work at these stations conducting random inspections of commercial vehicles that pass by. In addition, all commercial vehicles must be inspected and safety-certified annually by a licensed mechanic at one of Ontario's 13,500 Ministry-licensed Motor Vehicle Inspection Stations.

The Ministry has a rating system for monitoring the safety performance of operators. The system uses a formula based on roadside inspection results, collisions, convictions of either the operator or any of the operator's drivers, and audits at the operator's place of business. A number of intervention options are available to the Ministry when operators are found in violation of safety standards; these include warning letters, interviews with the operator, facility audits, and other sanctions up to and including revocation of the operator's right to operate in Ontario.

Audit Objective and Scope

The objective of our audit was to assess whether the Ministry had adequate monitoring and enforcement systems and procedures in place to ensure that commercial vehicles in Ontario are operated safely.

Our audit included examination of documentation, analysis of information—including the use of a number of computer-assisted audit techniques to analyze registration data for commercial vehicle operators, and operators' safety records—interviews with ministry staff, and visits to five district offices and a number of roadside inspection stations. In addition, we attended a number of facility audits, investigations at motor vehicle inspection stations, and bus terminal inspections; and participated in safety inspection blitzes.

Our audit also included a review of relevant audit reports issued by the Ministry's internal auditors; however, because the internal auditors had not done any recent work in the areas covered by our audit, their work did not result in a reduction of the scope of our audit or the extent of our procedures.

Our audit followed the professional standards of the Canadian Institute for Chartered Accountants for assessing value for money and compliance. We developed audit criteria for meeting our audit objective. These were discussed with and agreed to by senior management at the Ministry.

Summary

Initiatives undertaken by the Ministry of Transportation (Ministry) over the past decade have undoubtedly contributed to the progress made in reducing both the rate of fatalities involving commercial vehicles and the rate of collisions per 1,000 kilometres driven by commercial vehicles on Ontario roads. Specifically, the collision rate dropped by 10% during the 10-year period from 1995 to 2004. However, 9.2% of all collisions in Ontario still involve a commercial vehicle, so there is still considerable room for improvement. The Ministry needs to increase its efforts to obtain the information needed to identify the higher-risk operators and must strengthen its enforcement activities and its oversight of private-sector motor vehicle inspection stations if it is to ensure that unsafe commercial vehicles are kept off the road.

Our more significant observations were as follows:

- Since our last audit of commercial vehicle safety and enforcement in 1997, the Ministry has implemented a number of road safety initiatives targeting commercial vehicles and drivers. These include limiting driver hours of operation, passing legislation to reduce commercial vehicle speeds, suspending and impounding vehicles with critical defects, and implementing a new operator-safety-rating system.
- The Ministry relies on the Commercial Vehicle Operator's Registration (CVOR) system to track an operator's safety record so it can identify the higher-risk operators. However, some 20,600 operators—that have been involved in collisions, that have been convicted, or that have been pulled over for a roadside inspection—have never applied for the required CVOR certificate, and the Ministry takes little follow-up action against these operators. As well, the Ministry does not know the number of operators currently in business because there is no requirement for CVOR certificates to be periodically renewed. In addition, the thousands of tow truck operators in the province are exempt from the requirement to register with the Ministry, even though enforcement staff expressed concerns about the safe operation of these vehicles.
- The number of roadside inspections conducted by the Ministry has dropped by 34% since the 2003/04 fiscal year to approximately 99,000 per year. In 2007, only three out of every 1,000 commercial vehicles were subject to a roadside inspection.
- A disproportionate percentage (65%) of roadside inspections were conducted between 6:00 a.m. and 2:00 p.m. Although 21% of commercial vehicles trips are made at night, only 8% of the inspections are conducted at night.

- Although the Ministry indicated in response to our 1997 audit that officers must spend a minimum of 50% of their time doing roadside inspections, this performance target is no longer in place, and we noted that the number of roadside inspections per officer is averaging one to two per day. Inspections are also not done consistently across districts. For instance, the percentage of vehicles that inspectors pulled off the road, known as the out-of-service rate, varied from 15% to 35% by district, and the percentage of charges laid against drivers or operators based on inspections ranged from 8% to 30% among districts.
- Although the Ministry has implemented an improved bus information tracking system, it has not been able to meet its target for bus inspections. More than 140 bus terminal inspections were overdue, with some terminals not having been inspected for more than four-and-a-half years. In fact, 76 bus terminals had never been inspected, even though four of these had over 100 buses in operation.
- The available impoundment facilities were not adequate for ensuring that all unsafe vehicles were pulled off the road for the minimum 15-day penalty as called for by the impoundment program. Since only 15 truck inspection stations had impoundment facilities, unsafe vehicles identified in other locations were released after being repaired without the time penalty being imposed. Enforcement officers also tend to avoid impoundments because of the paperwork involved.
- Inspectors could often not retrieve operator safety records from the CVOR system quickly enough to use them in deciding which vehicles warranted a more thorough roadside inspection. As well, almost 10,000 inspection reports were waiting to be entered into the system, some having been backlogged for five months.
- The Ministry was not including in its safety ratings United States data on collisions and roadside inspection results as called for under the federal *Motor Vehicle Transport Act*. We noted 18,000 such events that had not been entered into operator records. Nor had some 3,500 convictions under the Ministry's red light camera program been recorded against the operators' records.
- The number of interventions against high-risk operators has been declining since 2003; and the most serious interventions, such as suspension or revocation of an operator's CVOR certificate, dropped by 40% from 2003 to 2007. Two-thirds of 740 operator facility audits—which ministry policy requires for operators with high safety violation rates—were cancelled by ministry staff. Our review of a small sample of these files indicated that more than half of those audits should have been conducted.
- The ability of the Ministry to take action against operators working under leasing arrangements was unclear, and several such operators that had high violation rates had not been audited or sanctioned.
- Although new operators have been shown to have a much higher likelihood of being in a collision, in Ontario—unlike in the United States—there is no program specifically targeting this high-risk group.
- All commercial vehicles are required to be regularly safety-certified by a licensed mechanic. We noted that the inspection standards used are outdated, and the Ministry does not exercise adequate oversight of this process and has little effective control over the issuance of safety standard certificates to inspection stations. We therefore questioned whether the Ministry has adequate assurance that this certification process ensures the mechanical safety of commercial vehicles.
- Ministry data over the past decade indicated that mechanical defects as a contributing factor in collisions fell by 34%, while driver behaviour as a contributing factor increased by

23%. However, minimal resources are devoted to providing operators and drivers with education programs to upgrade their skills.

- Meeting the goals of the Canadian national road safety plan will be challenging. For example, although the number of fatal collisions involving commercial vehicles has been gradually dropping and Ontario has been able to reduce its overall fatality rate by 2.3% and the serious injury rate by 9.7% over a four-year period, both are still well short of the 20% reduction by 2010 called for under the plan.

OVERALL MINISTRY RESPONSE

The Ministry values the Auditor General's observations and recommendations and is committed to taking action on these. The Ministry is dedicated to ensuring that Ontario's roads remain among the safest in North America and shares the Auditor General's desire to keep unsafe commercial vehicles off Ontario roads.

The Ministry appreciates the Auditor General's observations that the overall fatality rate in Ontario is the lowest it has ever been in the province. Since 1995, the collision rate for commercial vehicles has fallen by 10% in Ontario and the Ministry is pleased to note that the collision rate among the most important subcategory, large trucks, has dropped by 20%. These improvements can be attributed, in part, to the Ministry's commercial vehicle safety initiatives, such as the impoundment program for unsafe vehicles, operator safety system, and new hours-of-service regulations.

Detailed Audit Observations

NEW INITIATIVES

In 2005 (the last year for which this information has been compiled), Ontario had an overall fatality rate of 0.87 per 10,000 licensed drivers (this includes both commercial and passenger vehicle drivers). This was the lowest-ever recorded rate for Ontario and the second-lowest in Canada. It represents a decrease from the 2004 rate of 0.92 per 10,000 drivers and reflects the significant progress made since the early 1980s, when the rate was close to 3.

Vehicles have generally become safer over the years owing to new technology such as air bags. As well, seat belt legislation has had a positive impact on driver safety. Other ministry initiatives have undoubtedly also had an impact on the improvement in overall fatality rates. Two such initiatives relating specifically to commercial vehicle fatality rates are the impoundment program for unsafe vehicles and the new operator safety-rating model (we discuss both these initiatives later in this report). In addition, the following three safety initiatives are expected to further decrease accidents and fatalities.

One good initiative since our 1997 audit has been the introduction of a safety rating for each operator. The rating is based on a number of factors, such as collisions, operator or driver convictions, defects noted during inspections, and the results of facility audits.

More recently, Ontario has been working with the Canadian Council of Motor Transport Administrators (CCMTA) to modernize commercial vehicle drivers' hours-of-service rules to reflect advances in scientific research into human sleep patterns and fatigue management practices. As a result of this work, new regulations were established effective January 1, 2007, to help ensure that drivers get the necessary rest to safely operate their vehicles. Drivers now cannot drive more than 13 hours in a day or after being on duty, driving or otherwise, for 14 hours. A driver must also have a minimum of 10 off-duty hours in a day and take eight consecutive hours off between work shifts. As well, all drivers must have a period of at least 24 consecutive hours off-duty every two weeks. Drivers are required to maintain daily logs or time records of their driving, on-duty, and off-duty times.

Speed limiters are devices that restrict the amount of fuel injected in the engine when a vehicle reaches a predetermined speed. Since 1995, most heavy-duty diesel trucks have been manufactured with electronically controlled engines compatible with these devices. In response to an Ontario Trucking Association recommendation and Ontario traffic-survey data indicating that between 30% and 60% of large trucks travelling on 400-series highways were exceeding 110 kilometres per hour, the Ministry introduced legislation in March 2008 requiring that all commercial vehicles operating in Ontario be equipped with a speed limiter. The legislation was passed in June 2008, and the Ministry intends to develop regulations that apply the legislation to all large trucks built after 1995 and that set speed limiters in Ontario to a maximum speed of 105 kilometres per hour. On the basis of the experiences of other jurisdictions such as Australia and the European Union countries, speed limiters should work to decrease the risk of truck crashes as well as the severity of crashes when they occur. For example, according to one Saskatchewan study, casualties are reduced by 7% for every kilometre-per-hour reduction in average vehicle speeds. An Australian study indicated that if heavy trucks were 100% compliant with vehicle speed laws, there would be a 29% reduction in heavy-vehicle crashes.

While such initiatives are encouraging, the percentage of Ontario collisions involving commercial vehicles is rising. It was 7.9% in 1995 but 9.2% in 2005. This may indicate that the Ministry has been relatively more successful in improving passenger-vehicle safety than in improving commercial vehicle safety.

To address this, the Ministry needs to make further improvements to ensure that the registration data for all operators are current, the safety-rating system is working properly, and all commercial vehicles are maintained in a mechanically safe condition. Our audit recommendations address six major themes: registration of commercial vehicle operators; roadside inspections; intervention activities; motor vehicle inspection stations; safety education and awareness; and measurement and reporting of road safety.

REGISTRATION OF COMMERCIAL VEHICLE OPERATORS

Federal legislation requires each province to register, monitor, and assess the safety performance of its own operators. Ontario's *Highway Traffic Act* (Act) requires all commercial vehicle operators that operate in Ontario to register with the Ministry and obtain a Commercial Vehicle Operator's Registration (CVOR) certificate. A legible copy of the certificate must be carried in all commercial vehicles and provided to Ministry inspection staff if requested.

Exemptions to Registration Requirements

Although in general the Act requires all commercial vehicle operators to register for a CVOR certificate, there are some exceptions. For instance, emergency vehicles such as ambulances and fire-fighting vehicles are not required to register and are not monitored under the Ministry's commercial vehicle enforcement program. (However, there are other provincial statutes and regulations governing these vehicles and their maintenance.) Another exemption is for tow trucks. This exemption appears more problematic because these vehicles are not regulated under any other federal or provincial legislation. Both ministry staff and police officers we interviewed expressed concern about the mechanical fitness of the thousands of privately operated tow trucks on Ontario's highways.

Completeness of Registration

The more complete the commercial vehicle operator registration process is, the more useful and efficient it is for purposes of ensuring that the safety requirements for road users are met. For the registration process to be complete, all operators should be registered and the Ministry should have up-to-date information on their commercial vehicles.

When registering, operators must give the Ministry certain information, such as the name and address of their business, insurance details, driver's licence numbers, and the number of drivers operating their vehicles. Until April 2007, operators also had to report annually the size of their commercial vehicle fleet; since then, operators have been required to report annually the total number of kilometres that their fleet travelled in Canada.

Whereas operators register for one CVOR certificate that covers all the vehicles in their business, they register each of their commercial vehicles separately through the province's Private Issuing Network (PIN) offices, the same offices that register all other Ontario drivers and vehicles. At the time of our audit, there was no requirement for PIN staff to ensure that owners of commercial vehicles had valid CVOR certificates when they registered their vehicles. We found almost 1,600 cases where owners of commercial vehicles had registered their commercial vehicles with the Ministry but did not have a CVOR certificate. There is no ministry process for determining if the owner is actually operating a business and should have a CVOR certificate.

A CVOR record is also created by the Ministry when a commercial vehicle is involved in an "on-road event" and the operator is found not to be registered. These events include collisions, convictions, and roadside inspections. In such cases, the operator is given instructions for registering for a CVOR certificate and an operator record is created with a "not registered" status. In our audit we found that there were about 20,600 such unregistered operators as of December 2007, and we noted that little follow-up had been done to make sure that the operator ever obtained the required CVOR certificate. Although the Ministry may lay charges against such operators, this is only done in a minority of situations, for we noted that only 2,900 unregistered operators had been charged from 2003 to 2007. Of these operators, 775 were still unregistered at the time of our audit. One of them had been charged six times and had still never registered.

Registration Renewal

Unlike some other Canadian provinces, such as Quebec, Manitoba, Nova Scotia, and New Brunswick, Ontario has no process for renewing CVOR certificates. Therefore, it is difficult for the Ministry to know precisely how many operators are in business in the province and how big their businesses are, and thus the usefulness of the CVOR information in identifying higher-risk operators is hindered. At the time of the audit, the Ministry was developing a proposal for a new registration process by which all registered operators would have to periodically renew their CVOR certificates and update their operational information every year.

RECOMMENDATION 1

To help ensure that all commercial vehicle operators are registered and that they have provided all required information about their operations, the Ministry of Transportation should:

- consider revising the registration requirements to ensure that all operators are required to regularly renew their Commercial Vehicle Operator's Registration (CVOR) certificate and update their operating information;
- work with the Private Issuing Network to connect the CVOR registration process with commercial vehicle registrations to highlight operators without a CVOR certificate; and
- follow up on all unregistered operators to ensure that they are properly registered within a reasonable time.

MINISTRY RESPONSE

Commercial vehicle operators must be properly registered and provide complete and accurate information. The Ministry is exploring a registration and renewal program to strengthen registration for Ontario-based carriers. This program would require periodic renewal of operating certificates and updating corporate and operational information annually.

The Ministry is working with ServiceOntario's Private Issuing Network to ensure that owners of commercial vehicles are aware of CVOR requirements when registering their vehicles. The process for registration, documentation, and enforcement will be clearly communicated to the Private Issuing Network, ministry enforcement staff, and police services.

ROADSIDE INSPECTIONS

One of the Ministry's most important enforcement activities for ensuring commercial vehicle safety is the roadside inspection program. Random inspections of both vehicles and drivers' records are conducted at roadside inspection stations in accordance with the North American Commercial Vehicle Safety Alliance (CVSA) standards. These standards pertain to vehicle weight, load security, and mechanical and driver fitness. Vehicles with critical defects may be impounded, and unsafe drivers may be suspended. Figure 1 shows the number of inspections conducted from 2000/01 to 2007/08 by the four Ministry regions.

Efficiency of Roadside Inspections

The Field Operations Branch manages all roadside enforcement activities, including roadside inspections in the Ministry's four regions and its 17 district offices. In 2007/08, the Ministry employed approximately 250 field enforcement officers, who conducted some 99,000 roadside inspections. As Figure 1 shows, the number of these inspections has dropped over the last four years, with 34% fewer inspections conducted in 2007/08 than in 2003/04.

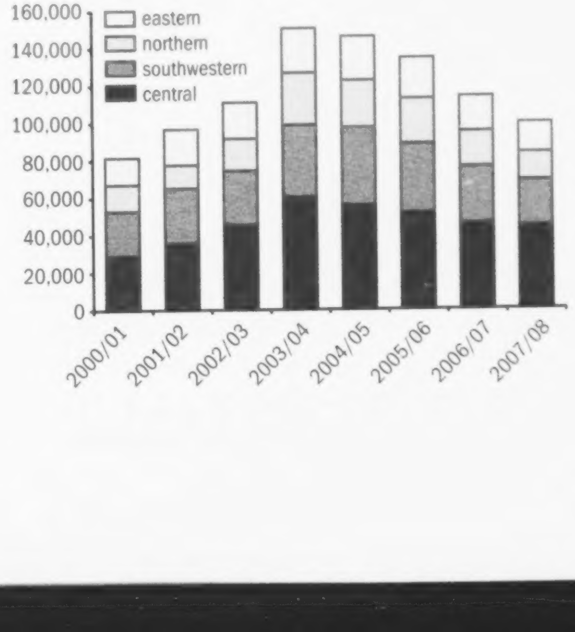
In response to a similar observation in our *1997 Annual Report*, the Ministry told us that officers would henceforth be expected to spend a minimum of 50% of their time performing roadside inspections. Currently, enforcement officers are conducting on average only one or two inspections per working day, and the Ministry advised us that the 50% benchmark is no longer an expectation.

Sixty percent of roadside inspections are conducted at one of the 37 fixed truck-inspection stations, 37% by patrol staff at mobile locations, and 3% by the police. One concern regularly mentioned by ministry staff in our discussions with them was the difficulty they had in adequately monitoring some of Ontario's busiest highways because of the geographical location of these inspection stations. It was also clear from our audit that the Ministry can inspect only a small percentage of commercial vehicles under this roadside inspection program. Specifically, our analysis showed that from 2003 to 2007, only 20% of Ontario operators were subject to any roadside inspections. In 2007, only three out of every 1,000 commercial vehicles were subject to roadside inspection.

Since the chance of being inspected is so small, it is important to ensure that the inspection system does not inadvertently provide opportunities for unscrupulous operators or drivers to bypass inspections altogether. In this regard, our analysis of inspection data found that roadside enforcement

Figure 1: Number of Roadside Inspections by Region, 2000/01–2007/08

Source of data: Ministry of Transportation



varied across districts and regions. And as shown in Figure 2, the number of inspections performed during different times of day varied considerably. The same figure also shows that inspection activity is not correlated with relative traffic volumes.

Specifically, the majority (65%) of roadside inspections are being conducted during the morning and early afternoon. The number of inspections dropped by 58% (from 84,777 to 35,681) in the afternoon from 2:00 to 10:00 p.m., whereas traffic volume drops only slightly from the morning and early-afternoon levels (from 41% to 38%). Inspections during the night were relatively infrequent, only 8% of inspections being conducted during these hours. And yet the volume of traffic during these hours, though less than during the day, still constituted 21% of all commercial traffic, or about half of the volume during the morning. In this regard we found that nine of the 15 district offices had conducted fewer than 100 nighttime inspections in 2007, and that one office had conducted only six nighttime inspections in the whole year.

The Ministry has no detailed standards or guidelines that establish performance expectations for its inspectors or that help its staff allocate scarce inspection resources to the areas of greatest "risk" to the public and ensure that systemic gaps in inspection coverage are avoided. Rather, inspections were conducted on the basis of individual officers' experience and professional judgment. Not unexpectedly, therefore, we noted wide variations across the province in inspection activity.

As shown in Figure 3, the average number of inspections conducted by enforcement officers has been falling since 2005/06.

There were also variations in the number of inspections between district offices. For example, we noted that over the last several years, officers in one district conducted on average about 370 inspections in a year while in another district, inspectors averaged almost 650 inspections in the same period—76% more. Our analysis also noted that the results of inspections often differed considerably. For example, the percentage of inspections resulting in vehicles being pulled off the road until specific problems are corrected, known as the out-of-service rate, varied from 15% to 35%. Similarly, the percentage of inspections that resulted in charges against drivers or operators ranged from 8% to 30%.

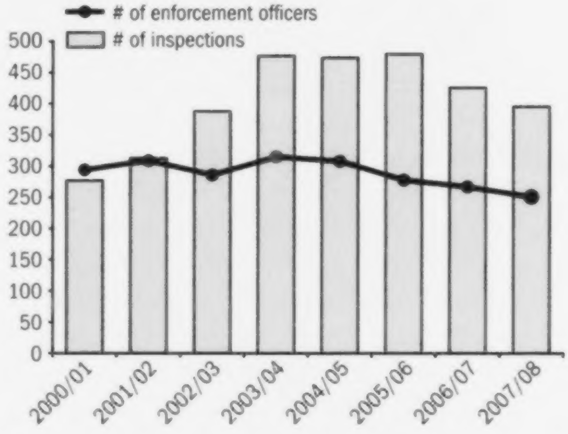
Figure 2: Average Number of Inspections Conducted by Time Period and Volume of Traffic, 2003-2007

Source of data: Ministry of Transportation

Time	Distribution of Traffic Volume (%)	Avg. # of Inspections per Year	Distribution of Inspections (%)
06:00-13:59	41	84,777	65
14:00-21:59	38	35,681	27
22:00-05:59	21	9,801	8

Figure 3: Average Number of Inspections per Inspector and Number of Inspections, 2000/01-2007/08

Source of data: Ministry of Transportation



Co-ordination of Inspection Resources

To ensure a continuous enforcement presence along Ontario's main highway corridors, resources must be co-ordinated. For instance, if a station is closed between noon and 6 p.m., it would be prudent for a neighbouring station to be open during this time period. We reviewed the staffing schedules for inspectors at each of the truck inspection stations along these main highways and found that there was only minimal co-ordination of operating hours among these stations. The results of our analysis for the five main corridors are illustrated in Figure 4, which shows that most of the inspection stations along these corridors were closed for many hours every day and the overall operating hours per day varied from 63% to 14%. Although there is no requirement for all inspection stations to be operating at all hours of the day, there are also no benchmarks or standards setting out the Ministry's coverage expectations for any of these major corridors.

There were many evenings and nights (6 p.m. to 6 a.m.) when all the truck inspection stations along some of these corridors were closed. As mentioned earlier, traffic volumes during this period can be substantial—as high as 60% of daytime volumes. Similarly, weekends and statutory holidays were another time in which inspection coverage dropped significantly because stations were closed. Although we recognize that traffic volume during these times is usually lower than normal, operators of commercial vehicles that want to avoid being inspected could take advantage of these coverage gaps, thus raising road safety risks.

RECOMMENDATION 2

To ensure that best use is made of roadside inspection resources, the Ministry of Transportation should:

- develop benchmark targets for the number of roadside inspections to be performed;
- conduct regular risk assessments to determine the best times for the stations to be open to minimize gaps in vehicle roadside inspections, and allocate inspectors accordingly; and
- monitor actual inspections and results so that systemic inconsistencies are identified for follow-up.

MINISTRY RESPONSE

Roadside inspections are critical to ensuring commercial vehicle safety. A plan is already under development to effectively identify and assign roadside inspection resources, including facilities and staff.

The Ministry hired 50 new enforcement officers and is hiring additional supervisors to ensure more roadside inspections take place at key locations along major corridors. New performance standards will be introduced for all officers and supervisors.

The Ministry has been exploring a commercial vehicle information system to support better planning of roadside inspections. Among other benefits, the system would allow the Ministry to monitor enforcement activities, vehicle trends, and out-of-service rates.

Figure 4: Inspection Coverage along Main Highway Corridors

Source of data: Ministry of Transportation

Highway Corridor	Daily Truck Volume	Overall Enforcement Coverage Based on a 24-hour Day (%)	Inspection Stations Closed at Night(%)	Inspection Stations Closed during the Weekend (%)	Inspection Stations Closed during Statutory Holidays (%)
Windsor-Toronto	45,909	63	13	44	50
Sarnia-Toronto	44,319	49	30	67	33
Windsor-Fort Erie	30,622	58	17	52	50
Toronto-Lancaster	28,718	38	73	94	92
Toronto-Sault Ste. Marie	27,565	14	72	99	100

Bus Inspections

In 2000, we conducted an audit of school vehicles and recommended that the Ministry improve its inspection process by focusing on high-risk operators and using information technology. In response, the Ministry implemented initiatives to enhance, in particular, its school bus inspection process. In 2003, it implemented a Bus Information Tracking System (BITS). The system was later expanded to monitor all bus operators in Ontario. The Ministry now maintains a central database of information on all Ontario bus operators, including the sizes and ages of their fleets, and the results of ministry inspections. Instead of stopping buses at ministry inspection stations, enforcement officers visit bus terminals to inspect these vehicles. Buses are chosen for inspection on the basis of the operators' fleet sizes and the number of bus terminals an operator maintains. The time between visits to bus terminals is intended to range from four to 15 months, depending on the results of past terminal inspections. Every year, the Ministry conducts some 8,000 buses inspections at nearly 1,000 terminals across Ontario.

However, we found that buses were not always being inspected as scheduled; in all districts, many inspections were overdue. Specifically, we found that, as of December 2007, more than 140 bus terminal inspections were overdue, some by more than four-and-a-half years. We also noted 76 bus terminals that had never been inspected—half of these terminals had been in business since 2002, and four of them had over 100 buses in operation.

We compared the results of our data analysis of ministry records with the bus inspection overdue report generated by BITS and found that about 20 bus terminals were not listed on the overdue report, even though they had not been inspected in the past four years.

RECOMMENDATION 3

To provide adequate assurance that bus operators are keeping their vehicles mechanically safe, the Ministry of Transportation should:

- **complete the backlog of overdue inspections at bus terminals with a focus on the large or higher-risk operators; and**
- **conduct a data-quality review of its recent Bus Information Tracking System to determine why there are errors in its system reports.**

MINISTRY RESPONSE

Bus inspections are a priority for this Ministry. The Ministry has addressed the backlog identified by the Auditor General, conducting over 2,000 bus inspections since April 2008. In May 2008, the Ministry further strengthened inspections by putting a system in place to mitigate future backlogs. A risk-based approach to bus inspections was modified and includes factors such as age of buses, size of bus fleet, and past safety performance, allowing the Ministry to identify higher-risk operators and vehicles for quicker inspections.

The Bus Information Tracking System is being monitored to ensure inspection activities are conducted and action taken in a targeted, timely fashion.

Vehicles with Defects

In 1998, the Ministry introduced the Commercial Vehicle Impoundment Program. Under the program, commercial vehicles considered unsafe may be impounded for 15 days or more as a deterrent. These vehicles must also be repaired and certified as safe by a licensed mechanic at a Ministry-approved motor vehicle inspection station before they can return to the road. Specific criteria for identifying unsafe vehicles were developed to deal with defective brakes, wheels and rims, steering, tires, and suspension and frame components.

We found that the available impoundment facilities and their operating arrangements were not adequate. For instance, only 15 truck inspection stations have impoundment facilities. Ministry staff informed us that this is primarily due to the absence of local towing arrangements at the other stations. Vehicles found to be unsafe in locations without impoundment facilities were accordingly released after the problems were corrected without being impounded. We sampled 660 vehicles found to be unsafe but not impounded during the period from 2004 to 2007, and reviewed the inspection documentation. According to the program criteria, almost 180 (27%) of these vehicles should have been impounded. Enforcement officers also acknowledged that impoundments required extensive paperwork and a prolonged approval process and therefore were sometimes avoided.

We further noted that the number of impoundments ordered has been dropping since the program began. Only 111 vehicles were impounded in 2007, just over half as many as in 1998 (212), when the program started. The impoundment rate also varied widely among facilities, with over 85% of all impoundments occurring at only four of the 15 locations.

In our review of operator and impoundment records, we also noted over 200 impoundments that had never been entered into the system. Such incomplete documentation practices can often mean that operators escape the penalties that would otherwise be imposed on them when they have a history of infractions.

Vehicles found to have less serious defects during an inspection may be released on condition that the operator send proof to the Ministry within 15 days that the fault has been adequately repaired. In our analysis of the approximately 850 defects of this type flagged between 2003 and 2007, we found that for 20% of them there was no evidence that the repairs had in fact been made. In such cases we noted minimal evidence of ministry follow-up, and only 5% of such operators were charged. In addition, these less serious defects were not handled consistently across the province, for we noted an additional 37,800 vehicles with similar defects for which proof of repairs was not required.

RECOMMENDATION 4

To ensure that non-compliant carriers are dealt with on a timely basis and unsafe vehicles are promptly removed from the road, the Ministry of Transportation should:

- provide guidance on how impoundments of vehicles with serious defects are to be handled for those truck inspection facilities with no impoundment area available;
- investigate the reasons for the significant variances in vehicle impoundments across the province to ensure that operators are treated consistently; and
- establish guidelines for verifying that the repairs relating to less serious defects noted during roadside inspections have been made.

MINISTRY RESPONSE

Ontario is the only North American jurisdiction with a commercial vehicle impoundment program.

New policies were implemented in April 2008 requiring operators to make repairs and report back to the Ministry within 15 days where vehicles are judged to have less serious defects.

Commercial vehicles with critical defects are not allowed back on the road. Officers observing vehicles with critical defects take immediate action, including charging the operator, placing the vehicle out-of-service, removing its number plates, or impounding the vehicle.

The Ministry will strengthen impoundment guidelines for enforcement officers and supervisors and ensure impoundment principles are communicated and applied consistently across the province.

Roadside Inspection Capture System

The Roadside Data Capture (RDC) system is an on-line system installed at roadside inspection stations and in enforcement vehicles for use in the Ministry's inspection and enforcement activities. The RDC system, which started as a pilot project in 2005, replaced an older system in August 2007.

The Ministry requires all commercial vehicles to enter a roadside inspection station when they are signalled to do so. Enforcement officers first weigh a vehicle and verify that it does not exceed the maximum weight allowed for each axle, while attempting to check the operator's record in the RDC system to identify past problems that may indicate a high-risk vehicle or operator. During our visits to the roadside inspection stations, we found that it was often difficult to retrieve these records because of the low bandwidth of the RDC network. Officers informed us that this was often the reason they simply relied on visual checks of the vehicles for obvious mechanical defects to determine if they should pull the vehicle over for a more thorough inspection.

When an officer completes an inspection, he or she can enter the results into the RDC system, which then automatically updates the operator's record. Nevertheless, some district offices did not make these data entries and continued to send paper inspection reports to the Commercial Vehicle Enforcement Branch. As of February 2008, almost 10,000 of these paper inspection reports were waiting to be entered into the system; some had been backlogged for five months.

Another useful function of the RDC system is its automatic flagging of vehicles that had critical defects identified in their last inspection. This flag helps the enforcement officers recognize high-risk vehicles at the roadside inspection stations. However, we noted that the system automatically turns this flag off if 90 days have passed since the defect was identified.

The RDC system also allows enforcement officers to issue electronic provincial offence tickets under the *Highway Traffic Act* for violations detected during roadside inspections. This capability is being used at six district offices, and the resulting tickets have been found to have fewer errors than the previous handwritten paper tickets. However, operator records are not updated until the tickets have been processed by the courts, and none of the provincial offence data are subsequently transferred to the Ministry of the Attorney General's court information system. As well, the Ministry has not made full use of the data maintained in the system, for this new electronic notice system is often being used as a printing machine only.

RECOMMENDATION 5

To ensure that enforcement officers can use the recently improved information technology system to identify high-risk operators that might warrant a more thorough roadside inspection, the Ministry of Transportation should:

- **improve network bandwidth at the roadside inspection stations;**
- **encourage districts that issue paper inspection reports to input them electronically in the Roadside Data Capture system;**
- **reassess the decision not to have the system flag all vehicles that were found to have critical defects in previous inspections once 90 days have passed; and**
- **consider establishing a data interface with the court system to transfer provincial offences charges electronically.**

MINISTRY RESPONSE

Technology is a valuable tool for enforcement officers, helping them keep our roads safe. In the last four years, the Ministry has implemented several new business applications that do precisely that, including Electronic Provincial Offence Notices, Electronic Commercial Vehicle Inspection Reports, and the Inquiry Services System.

The Ministry is developing a strategy to improve bandwidth at enforcement offices and truck inspection stations. New hardware is being installed in every enforcement vehicle to improve the speed of data transmission.

In response to the Auditor General's observations on the backlog of paper inspection reports,

the Ministry trained district enforcement office staff and utilized additional resources, eliminating the backlog in August 2008. Additional staff will be trained and provided with access to the Roadside Data Capture system to ensure that paper-based reports are entered into the system in a timely manner.

The Ministry will evaluate its current business rules for flagging vehicles in the Roadside Data Capture system found to have critical defects.

INTERVENTION ACTIVITIES

The Ministry's CVOR system automatically assesses each operator on the basis of event data, including collisions, convictions, and roadside inspections, as well as facility audits. These assessments use predetermined formulas and safety performance thresholds that an operator is expected not to exceed. The collision and conviction thresholds for each operator are based on fleet size and the average number of kilometres travelled per month in Canada; inspection thresholds depend on the number of drivers and vehicles inspected over the past 24 months and the number of violations found during these inspections.

The Ministry calculates an operator violation rate based on points accumulated from event data over a moving two-year period. Different points are assigned depending on such things as the type of any collision that occurs, convictions against the operator or a driver, as well as defects noted in roadside inspections. When an operator's violation rate meets a predetermined level, the Ministry may initiate an intervention or sanctioning process (see Figure 5). This violation rate, combined with the facility audit results (if any), is used to calculate a safety rating for the operator. Other events that may trigger an intervention include wheel separations, impoundments, or a collision causing death.

Accuracy of Safety Rating

In 1999 the Ministry began assigning public safety ratings to operators. Insurance companies, financial institutions, and other interested parties can find out the operator's safety rating to assist in their business decisions. Our review of the operator records showed that almost 74,000 (40%) of the registered operators did not have a safety rating. The Ministry explained that no safety rating was assigned to these operators because they have not been involved in any reported incidents or failed inspections, and accordingly there is little basis for a rating. Many of these operators may no longer be in business, but since the Ministry does not require licences ever to be renewed, this cannot be verified.

In April 2007, the Ministry introduced a new intervention model and changed the safety-rating formula in an effort to focus on operators that were most likely to be involved in future collisions. One of the major features of this new safety-rating model was that it replaced "fleet size" as a parameter with "kilometres travelled in Canada." During

Figure 5: Operator Safety Ratings and Ministry Interventions

Source of data: Ministry of Transportation

Violation Rate (%)	Safety Rating	Intervention
>=100	Unsatisfactory	sanction
85–100	Conditional (carriers are also rated conditional when they fail any facility audit irrespective of the violation rate)	interview
70–85		audit
50–70	Satisfactory (if facility audit passed with at least 55% score) OR Satisfactory Unaudited	audit
35–50		warning letter
15–35		none
15 or less	Excellent (if facility audit passed with at least 80%)	none

the two-year transition period from April 2007 to April 2009, both pieces of information are being used to calculate a blended threshold for road safety monitoring. The accuracy and completeness of this information is important for triggering timely and appropriate intervention; we noted, however, that both these pieces of information were often inaccurate or missing.

All operators are required to register their fleet size when registering for their CVOR certificates or when they have revised information. However, our data analysis found that 3,200 operators had not registered all their vehicles, and another 1,150 had not reported their fleet size at all. In such cases, the Ministry uses default values set at the lowest thresholds possible, and this is much more likely to trigger a ministry intervention if an event occurs. This may not be the most efficient use of ministry resources, and additional effort is needed in such cases to request updated information from the operator so that a more precise safety rating can be calculated.

Most operators also did not report their kilometres travelled within Canada to the Ministry. We noted over 100,000 (55%) operators who had never reported such information. In 2006 and 2007, the Ministry launched an initiative to request that operators update their fleet size and kilometric information and revised about 27,000 operator records with the information obtained. However, the information has still not been obtained from the majority of operators.

In reviewing how the safety rating is applied in practice, we noted that the two-year violation-tracking period is often shortened unintentionally because of delays in entering conviction and collision data into the system. The Ministry uses the collision date as the starting point for the two-year period instead of the conviction date, thus making the actual monitoring period shorter than intended and, in many cases, almost of no use. For instance, our analysis of conviction records between 2003 and 2007 found that over 10,000 convictions (5%) were delayed for more than a year, and for almost 700 convictions the delay was greater than two years. In these latter cases, the convictions had no effect on the operator's safety rating, because the two-year monitoring period had expired before the convictions were entered into the system.

Another area of delay we noted was the entering of collision reports involving commercial vehicles. Although we found that collision information was generally entered into operator records promptly, there was a delay of up to two months if the operator's CVOR number was missing. This delay again shortens the monitoring period since the Ministry uses the collision date instead of the data entry date as the starting date for the two-year monitoring cycle.

Out-of-province Events

The federal *Motor Vehicle Transport Act* requires each province to register, safety-rate, and monitor its local operators on the basis of events throughout Canada, the United States, and Mexico. All out-of-province and out-of-country events are submitted to the Canadian Council of Motor Transport Administrators (CCMTA), which is responsible for forwarding them to the jurisdiction in which the operator is based.

We found that data on collisions occurring in and roadside inspection results conducted in the United States for Ontario operators were being submitted to the CCMTA and being forwarded to the Ministry in accordance with the federal *Motor Vehicle Transport Act* requirements. However, the Ministry did not update operator records with these data. We noted over 18,000 such events for the five-month period between August and December 2007. The Ministry explained that because of the different definition of a conviction between the two countries, it felt it was unreasonable to apply these results against Ontario's operators. Whereas Canada uses actual conviction data, the United States incidents are based on charges laid against the operator before the case is actually settled by a court. We believe this information would still be useful to roadside station officers in identifying potential higher-risk vehicles warranting a more detailed inspection.

Red Light Cameras

The Ministry has installed cameras at selected intersections throughout the province. Under its red light camera program, a photograph is taken of the rear licence plate of any vehicle that runs a red light, and the owner of the vehicle is charged. We estimated that about 3,500 commercial vehicles were convicted under this program in 2007. However, for the reasons explained below, the Ministry does not record these failures to stop at a red light against commercial vehicle operators, and accordingly, operators' safety ratings are not affected by such incidents.

Tractors and trailers are considered two separate vehicles. They are licensed separately and often have different owners. Since there is no requirement to display a tractor licence plate on the back of a trailer that is attached to the tractor, it is often difficult to identify a driver who runs a red light while pulling a trailer. The Ministry commented that tractors may pull several different trailers within a short period of time. This lack of relevant licence information can also hinder investigations into hit-and-run accidents.

We further noted that even when a truck without a trailer is convicted under the red light camera program, the Ministry did not record such offences on the operator records even though it had enough information about the operator to do so.

RECOMMENDATION 6

To help ensure the integrity of the Commercial Vehicle Operator's Registration system and to enhance the reliability of the operator's safety rating, the Ministry of Transportation should:

- consider what sanctions might be effective for operators that do not provide all required information, including their fleet size and kilometric data;
- implement procedures to ensure that all carrier collisions and convictions are promptly and accurately recorded in operator records;
- reconsider the decision not to use collision and roadside inspection violation data from the United States in its risk assessments; and
- consider requiring that a tractor licence plate also be displayed on the back of trailers so that the operator can be more easily identified.

MINISTRY RESPONSE

The Commercial Vehicle Operator Registration system is a vital part of operator safety ratings. Since 2007, operators must report their fleet size and kilometric data. This information identifies higher-risk operators. Those operators failing to report this information are subjected to more frequent and severe interventions when detected on the road. The Ministry is considering further oversight enhancements through annual renewals of operating certificates, including updates of corporate and operational information.

New procedures will ensure that conviction and collision data are recorded on operator records. Consistent with other Canadian jurisdictions, the Ministry has adopted the National Safety Code standard requiring that the date of offence be entered on the operator record rather than the date of conviction.

The Ministry is participating in a joint Canada/U.S. working group to resolve data-exchange issues between the two countries. The Ministry will work toward implementing a reciprocal recognition agreement, enabling the use of U.S. collision, inspection, and violation data when determining the safety rating of Ontario operators.

As it is common industry practice across North America to transport commodities in trailers not owned by the tractor operator, the Ministry will consider the recommendation to display tractor plates on trailers within the context of North American practices.

High-risk Operators

Although the number of operators has been increasing by about 5,000 a year, the number of operators flagged by the Ministry for intervention has remained stable. However, the actual number of interventions undertaken, particularly the ones directed at the most dangerous operators, has been falling, particularly for 2007, as shown in Figure 6.

As summarized in Figure 5, the first intervention that the Ministry makes is to issue the operator with a warning letter when the operator's violation rate rises above 35%. We found that the Ministry had adequate procedures for ensuring that all such warning letters were sent out promptly.

The Ministry also conducted over 290 interviews with operators whose violation rate had reached 85% for the years 2003 to 2007. During the interview, the operator must present a plan for improving its safety performance. However, the Ministry does not follow up to ensure that the operator has actually made any promised improvements.

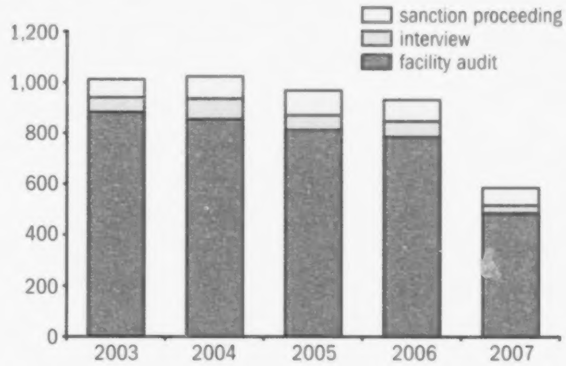
The most serious intervention available to the Ministry is to order a sanction against the operator. These sanctions can include revoking its right to operate in Ontario, seizing the operator's assets, suspending its CVOR, or placing a limitation on the fleet size. As illustrated in Figure 7, the number of sanctions arising from sanction hearings dropped from 62 (sanctions imposed in 87% of cases heard) in 2003 to 37 (sanctions imposed in 54% of cases heard) in 2007. We found that the majority of sanctions imposed were for the suspension of the operator's licence, with the average suspension being for 27 days.

Facility Audits

Facility audits are conducted at an operator's premises by enforcement officers when the violation rate reaches 50%. Standard procedures include an examination of the operator's records, vehicle maintenance records, driver log books, and trip documentation. A mechanical inspection of a sample of vehicles may also be conducted. A score is assigned on the basis of the defects noted during the audit, and this score affects the operator's safety rating.

Figure 6: Interventions Undertaken, 2003–2007

Source of data: Ministry of Transportation



Ministry guidelines require all facility audits to be completed within 90 days after the CVOR system flags the operators. However, we found that it took the Ministry an average of about 230 days to complete a facility audit, with 67% of audits not having been completed by the due date.

One of the reasons for this delay was that three separate ministry application systems are used as part of the facility audit process. Operator- and audit-related data are re-entered manually into another system after being flagged by the CVOR. When a facility audit is completed, the results are reviewed twice at district offices and then by the Commercial Vehicle Enforcement Branch before being entered into the operator records. We noted that on average it takes six weeks to review the completed audit results. Ministry staff commented that the causes of the delay include waiting for missing operator information, such as fleet size or distance travelled, in order to calculate the violation rate, and staff shortages at the district offices.

As soon as an operator's violation rate reaches 50%, the CVOR system flags the operator for a facility audit—with one exception. If an operator has been audited in the previous 12 months and has stayed within the audit range (violation rate between 50% and 85% as noted in Figure 5), the

Figure 7: Number of Sanction Hearings and Orders, 2003-2007

Source of data: Ministry of Transportation

	2003	2004	2005	2006	2007
sanction hearing	71	87	97	84	69
sanction ordered	62	66	59	55	37
% of hearings leading to sanction	87	76	61	65	54

CVOR system does not flag the operator for another intervention even if the operator commits an additional infraction. The Ministry has recognized this shortcoming, and in January 2008 it prepared a report identifying these operators. We were informed at the time of our audit that the Ministry had begun following up on these incidents with the relevant operators.

Standards and procedures for the Commercial Vehicle Enforcement Branch's review process for determining whether a facility audit should be conducted also need to be improved. Although we noted that some 740 operators were identified by the CVOR system as requiring a facility audit in 2007, almost 500 of these cases were dismissed by ministry staff with no further action being taken. We sample-tested 21 of these rejected facility audits with ministry management and found that 11—or about one-half—of these dismissed facility audits should have been conducted. We further noted that the violation rate of some of these operators continued to rise during the six months after they had received a warning letter about their safety performance.

Leased Vehicles

Many of Ontario's commercial vehicles are operated under leasing arrangements. We noted that the respective responsibilities of the leasing company and the lessee were often unclear in a number of areas, including the CVOR registration process; the handling of collisions, convictions, and inspection results; and the intervention process. In our testing we found that several operators under leasing arrangements had violation rates that, if the vehicles had not been leased, would have called for serious intervention, but they had never been audited or sanctioned. The Ministry believes that the safety rating for such carriers may be inaccurate because incidents involving them are not handled consistently and therefore it generally takes no action against them.

New-entrant Program

Studies of safety performance show that new operators have a much higher chance of being involved in collisions than other operators. They also have a lower rate of safety compliance. Ontario has no program for targeting this high-risk group.

In this regard, we noted that in the United States, the Federal Motor Carrier Safety Administration in January 2003 adopted a new-entrant fitness-assurance process for educating and monitoring all new operators. Every new operator in the U.S. is required to register as a "new entrant" and is subject to an 18-month safety monitoring period. All new entrants have to pass a safety audit near the end of this 18-month period as well as having their roadside collision and inspection results evaluated. An operator that fails to demonstrate good safety-management practices may have its registration revoked. This new-entrant program also applies to Ontario operators that operate in the United States.

RECOMMENDATION 7

To ensure that appropriate and timely action is taken on higher-risk operators, the Ministry of Transportation should:

- improve the review process involved in determining when sanctions should be imposed;
- conduct all facility audits on a timely basis and ensure that decisions to dismiss facility audits are appropriately approved;

- review the responsibilities of leasing companies and lessees to ensure that incidents involving them are handled in the same way as incidents involving operators that own their vehicles; and
- consider an education and monitoring program for new operators similar to what is required in the United States.

MINISTRY RESPONSE

The Ministry agrees that action must be taken to address higher-risk operators and has taken steps to ensure that sanctions are initiated immediately against those operators. In the first six months of 2008, the Ministry initiated 79 sanction proceedings. While interventions undertaken remained relatively constant from 2003 to 2006 and dropped in 2007, this was due, in large part, to the transition to a new safety-rating model.

Overdue facility audits will be completed quickly through redeployment of resources and more streamlined processes. Ministry staff were instructed in July 2008 not to override recommended interventions without strong justification and a full explanation.

Leasing companies and lessees must be provided with more detailed information on their respective responsibilities. To ensure consistent enforcement, the Ministry will send out clear direction to enforcement and police agencies. This will be followed up by sending information to leasing/rental companies outlining their responsibilities.

An education and monitoring program for new operators would be an effective measure, and the Ministry is exploring such a program.

MOTOR VEHICLE INSPECTION STATIONS

All commercial vehicles are required to have regular mechanical inspections within a specified time and be safety-certified by a registered mechanic. All commercial vehicles are required to display their safety certificate as evidence that they have been inspected by a registered mechanic within the past year. All motor vehicle inspection stations (MVIS), most of which are private garages, register with the Ministry, register the licensed mechanics they employ, and renew the station licence at least once every year. As of March 2008, there were 13,000 MVIS stations with almost 33,000 licensed mechanics registered.

However, commercial vehicles may not be inspected properly by the motor vehicle inspection stations before being certified as mechanically safe, partly because the inspection standards used are outdated. We note that the Ministry's internal audit service expressed similar concerns in a 2004 report, but no corrective action has been taken. Our concerns are set out in the following sections.

Outdated Inspection Regulations and Information System

We found that the ministry regulations concerning the safety inspections by motor vehicle inspection stations were out of date. For example, such advances in technology as airbags, anti-lock brakes, and air brakes were not covered. The Ministry did conduct a study in 1993 to update these inspection standards, but the recommendations arising from this study were never implemented. A similar study was conducted in 2003/04 to modernize regulations for the licensing and operation of inspection stations, but again, the recommendations were never implemented.

The MVIS system itself is also out of date. Although its purpose is to track all licensed motor vehicle inspection stations and the mechanics working at them, we found the system to be a very basic database without the capacity to provide adequate management reports or otherwise help the Ministry to monitor and oversee the network of inspection stations. In 2003, the Ministry hired a consulting firm to review this program and the decade-old

MVIS system. However, none of the consultant's recommendations have yet been implemented.

Licensing and Inspection of Stations

Unlike other provinces, such as British Columbia, Alberta, and Manitoba, which inspect their motor vehicle inspection stations periodically, Ontario cancelled its cyclical inspection process in 1988. Investigations are now conducted only if complaints are received from the public or if a problem comes to the attention of ministry enforcement staff. In our *1997 Annual Report*, we expressed our concern about the absence of an inspection process, and the Ministry committed to developing criteria for choosing high-risk stations for inspection audits. However, during our current audit, we noted that no progress had been made in this area. Specifically, there are no guidelines or process for identifying high-risk MVIS stations or taking any enforcement action against them. We also found that there were no procedures for identifying problem operators that applied for a new MVIS licence, thereby "cleaning" their record.

Licensed inspection stations purchase safety standard certificates with removable stickers from the Ministry and apply these stickers to the commercial vehicles that have passed their safety inspections. On average, about 600,000 safety standard certificates are ordered every year. Ministry staff review these sticker orders, and if they notice that an MVIS appears to be ordering an excessive number, they notify the local district office, which is expected to follow up with the station. However, there was no process for ensuring that all such cases were in fact investigated, and the district offices we visited informed us that these investigations were not being conducted because of staff shortages and the lengthy process involved in attempting to prosecute non-compliant stations. In our data analysis, we found mechanics who had issued as many as 380 safety inspection stickers in one year, which was almost eight times as many as those issued by an average mechanic.

Where a station was inspected, we found that the investigations were not conducted the same way by all district offices. We noted that the activities of investigators, some of whom are licensed mechanics and some of whom are not, ranged from simply checking paper records or observing the existence of mechanic's tools to more thoroughly reviewing the work performed by the mechanic. Moreover, there was no tracking and management reporting mechanism to ensure that all investigations were completed in a timely manner, and many of the files we attempted to review at district offices could not be located.

When the Ministry does find stations or mechanics to be non-compliant, such as by performing inspections improperly, it has the power to revoke a station's licence or a particular mechanic's registration. However, we noted that this was rarely done, even when a station had a long history of convictions or had been sent numerous warning letters. Our analysis of MVIS data found stations that had a large number of convictions on their record but were still continually and routinely licensed by the Ministry to operate.

Licensed Mechanics

When a motor vehicle inspection station registers for a new licence or re-registers at the end of each calendar year, the mechanics working at the station must also register with the Ministry. Our review of this registration process found that the Ministry had insufficient controls to ensure that only fully qualified mechanics are licensed to work at these stations. When a new mechanic is registered with the Ministry, his or her mechanic's licence is verified with the Ministry of Training, Colleges and Universities, which issues and maintains these licences. However, no further verification is done to ensure that the mechanic remains licensed and in good standing, even if he is terminated at one station and begins working at another. We also found that the two ministries do not notify each other of any mechanic's licences that have been revoked for inspection violations or other reasons.

A mechanic may work for more than one inspection station at the same time; however, we noted mechanics who were registered and working at two or more stations located far away from one another. The risk is that the mechanic's licence number may be used to certify vehicles that the mechanic had not actually inspected. The Ministry has no process for identifying mechanics who are registered with more than one station or for assessing the risks involved in such situations. We also noted over 75 mechanics who were registered as working at more than five stations at the same time.

Inventory Control

Motor vehicle inspection stations order safety certificates from the Ministry in booklets of 10 and are required to return unused ones to the Ministry. The certificates are numbered sequentially, and the Ministry records these numbers as the certificates are ordered by each station. Thus, if the Ministry inspects a vehicle that has just been certified and finds it to be mechanically unsafe, it should be able to determine which station performed that suspect inspection. We found that the Ministry's inventory-control procedures need to be improved. Although all certificates returned to district offices are supposed to be sent back to the Commercial Vehicle Enforcement Branch, district offices often keep these returned certificates. We attempted to reconcile the records at the Branch with the inventory records maintained at district offices and found that about 4,000 of these returned certificates were unaccounted for. We also noted that another 400 certificates had been returned to district offices, but the Branch had no record of these returns. Sometimes district offices transferred some of their returned stickers to other inspection stations, but the Ministry's tracking records for these resold certificates were not updated; thus the Ministry's ability to determine which MVIS had conducted a particular inspection was compromised.

Out-of-province Inspection Certificates

The federal *Motor Vehicle Transportation Act* requires each province to recognize safety inspection certificates issued by another province. Likewise, safety certificates issued by the United States federal or state governments are to be accepted as proof of an annual inspection provided the inspections are done in accordance with U.S. federal regulations. We noted that whereas 25 states comply with and follow these federal regulations when conducing commercial vehicle inspections, the other 25 states do not, but rather follow their own inspection standards. The Ministry has no evidence that such inspections are conducted to the same standard as those states that meet the U.S. federal regulations. The Ministry had no guidelines to help enforcement officers assess the comparative value of these certificates, and in practice, all were accepted.

We also noted that U.S. inspection certificates are not controlled as tightly as Ontario certificates. In Ontario, inspection stickers issued to MVIS stations may be affixed onto commercial vehicles only by licensed mechanics after an inspection. U.S. operators, however, can purchase blank U.S. inspection certificates at truck stores. Although under U.S. law, the blank inspection certificates may be filled in only by a certified mechanic after conducting an inspection, Ontario enforcement officers have little assurance that such stickers are valid when they conduct their roadside inspections.

Our review of collision records suggests that the Ministry might improve its risk assessments by analyzing these data by the home location of the vehicle involved. We noted that vehicles from some U.S. states have poorer performance records than others. For instance, commercial vehicles in Arizona, Rhode Island, and Alaska were involved in proportionally more at-fault collisions than Ontario vehicles, and commercial vehicles in Arizona, Rhode Island, and Maine that were inspected were more likely than Ontario vehicles to have out-of-service defects.

RECOMMENDATION 8

To ensure that the required regular safety certifications by private-sector licensed mechanics are reliable in determining whether commercial vehicles are mechanically safe, the Ministry of Transportation should:

- update its safety inspection standards to address current technology such as air brakes, anti-lock brakes, and airbags;
- enhance the functionality of its Motor Vehicle Inspection Station system so it provides management and inspectors with useful risk-based information;
- strengthen inventory and monitoring controls to identify whether an excessive number of safety standard certificates are being issued to private-sector inspection stations or mechanics certifying an abnormally high number of vehicles;
- work with the Ministry of Training, Colleges and Universities to establish a process for exchanging information on problem mechanics or those with revoked licences;
- ensure that mechanics registered at multiple stations are actually inspecting the vehicles they certify; and
- given that some states have significantly less rigorous standards than Ontario does, develop guidelines for validating inspection certificates issued south of the border.

MINISTRY RESPONSE

Modernization of inspection standards for heavy trucks and buses is needed. Plans are in place to modernize inspection standards for heavy trucks and buses.

The Ministry is developing new processes for receiving, co-ordinating, and assigning investigations, better utilizing data available in the Motor Vehicle Inspection Station system.

The Ministry is investigating mechanics registered at multiple inspection stations, excessive stock orders, and missing inspection certificates that have been identified by the Auditor General. A process will be implemented to quickly identify and investigate these indicators of potential fraud. The Ministry is launching a pilot project with the Ministry of Training, Colleges and Universities to allow ministry enforcement officers to verify the credentials of licensed mechanics. Both ministries are working toward a data exchange protocol to ensure timely notification of revoked mechanics' licences.

Although inspection data show that the overall safety of U.S. trucks is similar to that of trucks in Canadian jurisdictions, enforcement officers will be given clear direction to consider vehicles based in non-compliant states as a factor in selecting them for inspection.

SAFETY EDUCATION

Ministry statistics reveal that in collisions involving commercial vehicles, driver behaviour is a greater factor than mechanical failures. We analyzed the collision data recorded in the CVOR system over the 10 years from 1998 to 2007, and noted that driver behaviour and condition being cited as a contributing factor rose by 23% over this period while vehicle mechanical defects being cited as a contributing factor fell by 34% over the same period. Accordingly, improving driver performance is key to improving road safety.

The Ministry has a number of informal ways of educating commercial operators, particularly about new regulations related to vehicle safety. For instance, enforcement staff discuss relevant legislation and policy with drivers during roadside inspections or facility audits, and also attend stakeholder events to promote road safety or discuss new regulations. However, we noted very little in the way of formal programs to educate commercial vehicle operators, drivers, or motor vehicle inspection stations on such things as overall regulatory requirements or specific mechanical or driver-behaviour issues. Nor has the Ministry conducted any recent stakeholder surveys to determine what type of training the operators think they need or could benefit from. In our *1997 Annual Report*, we recommended improvements in the ministry education process and stakeholder communication, but we have noted little progress in that regard since that time. The Ministry did start publishing a newsletter for commercial motor vehicle operators in early 1997; however, the newsletter was discontinued in 1998.

Although the Ministry maintains records of all commercial vehicle operators and driver convictions, it conducts little analysis of these data to determine the most common reasons for convictions and to develop mitigation strategies, such as driver education. Accordingly, we analyzed these conviction records for the period from 2003 to 2007, and found that the main reasons for a commercial vehicle conviction have been the same over the years. Figure 8 summarizes these convictions for 2007.

Furthermore, according to the Ministry's roadside inspection result analysis, the most common out-of-service defects were also generally the same over the years. Figure 9 summarizes these out-of-service defects for 2007. Nevertheless, there were no ministry education or awareness programs targeting these specific problems or advising operators of the most common defects so that they could pay particular attention to them in their own vehicle safety programs.

Figure 8: Top Five Reasons for Convictions of Operators or Drivers in 2007

Source of data: Ministry of Transportation

1	speeding
2	excessive load weight
3	improper use of seatbelt
4	failure to provide evidence of vehicle inspection as prescribed by regulations
5	failure to perform required daily pre-trip inspection

RECOMMENDATION 9

Given that an increasing percentage of collisions involve driver behaviour rather than vehicle mechanical defects, the Ministry of Transportation should assess whether some reallocation of resources to an increased focus on driver education and training might be warranted. As well, it should provide information to operators and drivers to assist them in reducing the incidence of the most common problems.

MINISTRY RESPONSE

Many collisions are clearly the result of driver behaviour. In response, the Ministry has strengthened commercial driver hours of work regulations and Class "A" driver testing rules.

The Ministry is also working with the Ministry of Training, Colleges and Universities to improve how commercial drivers are trained, tested, and licensed. Improvements to the Class "A" driver's licence were implemented in June 2008 and more appropriately reflect the type of vehicle used for road tests.

ROAD SAFETY MEASUREMENT AND REPORTING

In our *1997 Annual Report*, we recommended that the Ministry more formally assess the effectiveness of its efforts to improve commercial vehicle safety and periodically report on this evaluation. The Ministry committed to doing so, and it completed it first annual comprehensive performance evaluation of commercial vehicle safety in 1998. This study was based on data for 24 months ending in 1997. Since then, however, there have been no further program evaluations.

We also noted little progress in the development of measures of program effectiveness or efficiency. Ministry business plans continue to outline the general aim of the program, which is to improve

Figure 9: Top Five Out-of-service Defects—Driver and Mechanical, 2007

Source of data: Ministry of Transportation

	Driver Defects	Mechanical Defects
1	failure to maintain hours-of-work log	insecure load
2	failure to provide log book	brakes out of adjustment
3	improper driver's licence	inoperative parking brake
4	suspended driver's licence	failed lighting system
5	driver's licence without air brake endorsement	damaged air-supply line

safety and security for all road users and to maintain Ontario among the safest jurisdictions in North America. However, performance benchmarks or targets for determining whether this aim is being achieved have yet to be established.

The Ministry did launch a Strengthening Commercial Vehicle Safety (SCVS) Project in May 2005 with the intention to establish program goals and performance measures, rationalize roadside inspection activities, and modernize the facility audit process. The project was also slated to study the likely impact of future changes in economics, traffic volume, and freight movement on the enforcement program, and to develop automated management reports to assist in resource planning. However, this project was terminated in mid-2007 because of resource constraints, and the study was not completed.

The Ministry is also required to table annually in the Legislature a report on road safety providing statistics on traffic incidents in the province, including collisions, fatalities, convictions, injuries, and property damage, as well as the type of vehicles involved and where collisions occurred. At the time of our audit, the last report tabled—in spring 2008—was for the 2005 calendar year. In our *1997 Annual Report*, we also found that this report was not being tabled on a timely basis.

Target '97 Task Force

In response to public pressure to improve truck safety in Ontario, in fall 1996, the Ministry, together with industry stakeholders, created the Target '97 Task Force on Truck Safety. On March 10, 1997, the Task Force tabled its final report, which contained 79 recommendations for improving truck safety. The recommendations address carrier safety ratings, the Commercial Vehicle Operator's Registration system, maintenance and inspection standards, hours of work, and driver training.

We reviewed the status of 55 recommendations that are relevant to this audit and found that 32 of them had been implemented. These are summarized in Figure 10.

Road Safety Vision 2010

In 1996, a Canadian national road safety plan was developed by the Canadian Council of Motor Transport Administrators (CCMTA) and the country's ministers of transportation. The CCMTA is a non-profit organization with representation from the federal, provincial, and territorial governments; its purpose is to deal with administrative and operational matters pertaining to road safety, including the regulation of commercial vehicles.

The national road safety plan, which is called Road Safety Vision 2010, sets a national target for reducing the number of road users killed or injured by 30% during the 2008–10 period compared with the period from 1996 to 2001. There are also a number of sub-targets, one of them being a 20% reduction in the number of road users killed or seriously injured in crashes involving commercial vehicles. According to statistics from 2001 to 2005, the overall fatality rate in Ontario has been reduced by only 2.3% and the serious injury rate by 9.5%. Both of these are still well below the 20% target reduction rate. In both categories, Ontario was ranked seventh among the 12 jurisdictions.

Figure 10: Implementation of Recommendations from Target '97 Task Force

Source of data: Ministry of Transportation

	# of Recommendations	# of Recommendations Implemented as of February 2008
commercial vehicle operation registration system	14	11
driver hours of work	12	9
inspection and maintenance standards	18	10
establishment of operator safety ratings	11	2
Total	**55**	**32**

Road Safety Performance Analysis

Since the Ministry had established and reported on only minimal performance measures for assessing the effectiveness of the commercial vehicle safety program, we analyzed the collision data of all Canadian jurisdictions for the period 1995 to 2005 (the latest available data) from Transport Canada.

As summarized in Figure 11, the Transport Canada data for Ontario indicate that the number of fatal collisions involving commercial vehicles has been fluctuating over the past 10 years but has been gradually dropping. Although the reasons for this improvement are unclear, they would include improved safety features, such as airbags, vehicle structural reinforcements, and the requirement to wear seatbelts. Driver behaviour also appears to be improving, for, according to ministry data, the collision rate per 1,000 kilometres travelled fell by 10% between 1995 and 2004.

Although the above reductions are encouraging, there is still room for improvement. While collision rates have been dropping, the total number of collisions causing injuries has remained stable, with a total of 3,857 in 1995 and 3,976 in 2005, well above the CCMTA Vision 2010 target. In absolute terms, the total number of collisions involving commercial vehicles has also climbed by 22%—from 17,354 in 1995 to 21,103 in 2005.

Moreover, our analysis found that 9.2% of all Ontario collisions involved commercial vehicles, an increase over the 1995 figure of 7.9%.

Collisions involving commercial vehicles that lost wheels on the highway were a cause of great public concern in 1996/97, when a record number of 215 incidents were reported. We reviewed the number of such incidents and noted that they dropped dramatically in 1998 to about 100 and have remained the same since then.

RECOMMENDATION 10

The Ministry of Transportation should regularly analyze enforcement and traffic information to help management assess the effectiveness of its roadside inspection and other road safety programs in reducing fatalities and collisions. As well, it should expedite the tabling of the

Figure 11: Injuries and Property Damage from Collisions Involving Commercial Vehicles

Source of data: Transport Canada

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
fatal injury	158	149	148	131	150	127	139	146	154	147	118
non-fatal injury	3,699	3,779	3,672	3,336	3,579	3,677	3,400	3,655	3,693	3,702	3,858
property damage	13,497	13,485	14,407	13,144	15,021	15,984	15,520	15,936	17,605	17,124	17,127

required report on traffic incident statistics and make this report, as well as other performance measures on its commercial vehicle road safety program, available to the public.

MINISTRY RESPONSE

The Ministry is working to enhance data collection and storage, including options such as a commercial vehicle information system. The system will allow the Ministry to better monitor enforcement activities, vehicle trends, and out-of-service rates by region and many other parameters.

The Ministry shares the Auditor General's concerns regarding tabling of required statistical reports and is investigating options to speed up this process. The Ministry continues to work with its road safety partners such as police services and the Coroner's Office to expedite delivery of the annual road safety report.

Chapter 3
Section
3.06

Ministry of Health and Long-Term Care

Community Mental Health

Background

The *Local Health System Integration Act, 2006* provides for an integrated health-care system to improve the health of Ontarians through better access to health services and better co-ordination of health care both locally and across the province. It established 14 Local Health Integration Networks (LHINs), which are responsible for the effective and efficient management of the health-care system at the local level. Effective April 1, 2007, the Ministry of Health and Long-Term Care (Ministry) closed its seven regional offices and transferred their responsibilities to either the LHINs or new areas within the Ministry. Community-mental-health service providers began reporting directly to their respective LHINs rather than to the Ministry. The LHINs assumed responsibility for prioritizing, planning, and funding certain health-care services, including community-mental-health services. A Ministry/LHIN Accountability Agreement that sets out the accountability relationship between the Ministry and each LHIN outlined the types of mental-health services to be managed by LHINs and those to be managed by the Ministry. Figure 1 breaks down 2006/07 community-mental-health expenditures into the Ministry-managed and LHIN-managed services.

The Ministry provides transfer payments to the LHINs, who fund about 330 community-based service providers for the delivery of mental-health services. The major types of programs funded include housing, case management, multidisciplinary treatment teams (known as Assertive Community Treatment teams), crisis intervention, and counselling and treatment. These programs are primarily designed to treat the estimated 2.5% of the population 16 years and over with a serious mental illness. This population is characterized by what are referred to as the "Three Ds": a *diagnosis* of mental illness such as schizophrenia, depression, bipolar disorder, or personality disorder; a long *duration* of illness; and a significant *disability* in day-to-day functioning. Figure 2 illustrates the 2006/07 expenditures according to type of service.

Funding to community-mental-health services in Ontario totalled about $647 million in the 2007/08 fiscal year, up from $390 million in 2001/02, the time of our last audit.

In 1976, the Ministry began funding community-based mental-health services, and, since that time, mental-health policy in Ontario has evolved from one of institutional care in psychiatric hospitals to one where most of the emphasis is on community-based care. This redirection in policy, commonly referred to as mental-health reform, is intended to create an efficient and integrated system that would

Figure 1: Management Responsibility and Expenditures for Community-mental-health Services, 2006/07

Source of data: Ministry of Health and Long-Term Care

Service	Managed by	Expenditures ($ million)	% of Total Expenditures
supportive housing[1]	Ministry	55.8	9
Homes for Special Care Program[2]	Ministry	28.9	5
services provided by certain provincial organizations[3]	Ministry	14.5	2
remaining services[4]	LHINs	496.3	83
Total		**594.5**	**100**

1. bricks and mortar components only—not the supportive services that come with the housing units
2. a program established in 1964 under the *Homes for Special Care Act* to provide accommodation in private residences with 24-hour supervision and assistance with activities of daily living
3. These organizations are transfer-payment agencies that, owing to their provincial mandate, cannot be allocated to specific LHINs. For example, the Ontario Federation of Community Mental Health and Addictions Programs is the provincial organization representing all community-mental-health and addiction agencies across the province, so it would not be appropriate for a particular LHIN to manage it. The Ministry manages about 10 such agencies in the mental-health field.
4. Examples include Assertive Community Treatment, case management, crisis intervention, short-term residential crisis beds, early intervention in psychosis, and diversion/court support.

meet the needs of people with serious mental illness in the most appropriate, effective, and least restrictive setting. As part of this reform, since 1998, the Ministry has divested itself of or transferred nine of 10 provincial psychiatric hospitals to public hospitals and community-based service providers.

Audit Objective and Scope

The objective of our audit was to assess whether the Ministry, in partnership with the Local Health Integration Networks (LHINs) and the community-based service providers, has mechanisms in place to:

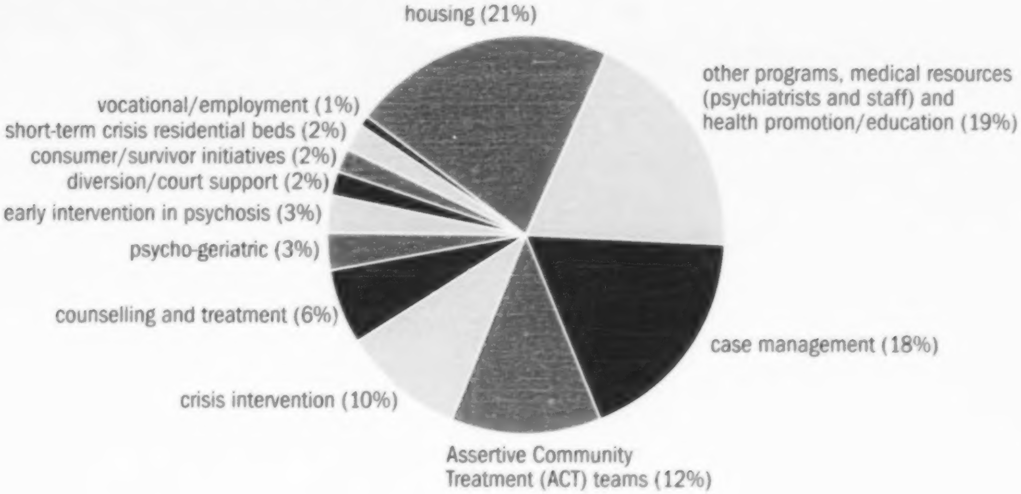
- meet the needs of people requiring mental-health treatment services;
- monitor payments and services to ensure that relevant legislation, agreements, and policies are followed; and
- measure and report on the effectiveness of its community-mental-health programs.

In conducting our audit, we reviewed and analyzed relevant information available at the Ministry and visited three LHINS and two community-mental-health service providers in each of the three LHINs. We also met with representatives from stakeholder organizations, including the Centre for Addiction and Mental Health, the Canadian Mental Health Association, and the Ontario Federation of Community Mental Health and Addiction Programs. We reviewed relevant literature and researched practices in community-mental-health delivery in other jurisdictions. We also reviewed and, where warranted, relied on work completed by the Ministry's internal audit services.

Our audit followed the professional standards of the Canadian Institute for Chartered Accountants for assessing value for money and compliance. We set an objective for what we wanted to achieve in the audit and developed audit criteria that covered the key systems, policies, and procedures that should be in place and operating effectively. We discussed these criteria with senior management at the Ministry. Finally, we designed and conducted tests and procedures to address our audit objective and criteria.

Figure 2: Components of Community-mental-health Expenditures, 2006/07 (%)

Source of data: Ministry of Health and Long-Term Care



Summary

In both our 1997 and 2002 audits of community-mental-health services, we expressed concern that Ontario had not yet established clear expectations for the level of community-based services that the seriously mentally ill could expect to receive. As well, it did not have sufficient information on whether the level of care being provided by community-based service providers was sufficient to enable people with mental illness to live fulfilling lives in their local communities. Our current audit indicates that, while the Ministry has made some progress, many of these concerns have not yet been adequately addressed. With respect to its goal of replacing institution-based treatment with community-based treatment and suitable housing, the Ministry has made good progress in reducing the number of mentally ill people in institutions. However, the success of this strategy is dependent on adequate community-based support systems. As the following observations indicate, the Ministry, working with the LHINs and its community-based partners, still has significant work to do in this area:

- The Ministry has almost reached its interim deinstitutionalization target of reducing the number of psychiatric beds to 35 per 100,000 people. However, the Ministry was still far from achieving its community target of spending 60% of mental-health funding to meet the needs of people with serious mental illness in the community. In the 2006/07 fiscal year, the Ministry spent about $39 on community-based services for every $61 it spent on institutional services.
- According to a report released by the Centre for Addiction and Mental Health in 2004, over half of the people with serious mental illness living in the community were not receiving an appropriate level of care. The study also identified a high rate of unmet need, especially for intensive community services. As well, of those persons with mental illness in hospitals, over half could be discharged into the community if the necessary community services were available. While the Ministry has made major investments in community care subsequent to this study, the LHINs and service providers we visited indicated that this was still an issue in the communities.

- There were lengthy wait times for services. Excluding supportive housing programs, community-mental-health services had wait times of about 180 days on average, ranging from a minimum of eight weeks to a year or more.
- While we noted some local co-ordination initiatives that should be considered best practices, formal co-ordination and collaboration among stakeholders—including community-mental-health service providers, the relevant ministries, and the LHINs—was generally lacking.
- The Ministry transferred the delivery of community-mental-health services to the LHINs on April 1, 2007. However, the LHINs we visited indicated that they were still learning how to effectively oversee and co-ordinate community-mental-health programs.
- Although new funding from the federal government and from the province's Service Enhancement initiative have increased capacity in the community sector, over half of community-mental-health service providers have received annual increases of only 1.5% over the last few years. Service providers indicated that, as a result, they were significantly challenged in their ability to maintain community service levels and qualified staff.
- The funding of community-based programs continues to be based on past funding levels rather than on actual needs. The historically based funding has resulted in significant differences in regional average per capita funding, ranging from a high of $115 to a low of $19 depending on where in Ontario one lives, which may not be reflective of current population needs.
- Overall, there is a critical shortage of supportive housing units in Ontario, with wait times ranging from one to six years. We also found that such units were unevenly distributed throughout the province, ranging from 20 units per 100,000 people in one LHIN to 273 units per 100,000 people in another. While some regions experienced a serious shortage, others had significant vacancy rates, which were as high as 26% in the Greater Toronto Area.
- The Ministry has not adequately monitored payments to service providers. We noted cases in which the Ministry provided capital funding to housing providers to repair supportive housing units without ensuring that the work was being done in a timely and cost-effective manner.
- The Ministry's 1999 *Making It Happen* policy document confirmed the necessity of developing explicit operational goals and performance indicators. While its 2007 Mental Health System Scorecard is a step in the right direction, significant work is still required before the Ministry and the LHINs have sufficient information to assess the adequacy of community-based care that people with serious mental illness are actually receiving.
- Since our last audit in 2002, the Ministry has successfully implemented two new systems to collect data for the community-mental-health sector, with 80% to 90% of service providers submitting data and complying with the reporting requirements. While this was a good initiative, more attention is needed to ensure the data collected is complete, accurate, and useful so that it can be used to measure and report on the effectiveness of community-mental-health services.
- Service providers' operating plans provide valuable quantitative and qualitative information that enables the Ministry and the LHINs to gain an understanding of and monitor service providers' operations. However, for the 2007/08 fiscal year, service providers were not required to submit operating plans.

Many of the issues above are also the main concerns of the LHINs we visited. Examples identified by the LHINs are the significant wage disparities between the community and institutional sectors, the risk that service volumes will be reduced owing to inadequate increases in base funding, the failure to move people with mental illness from hospitals to a more appropriate level of care, service gaps in supportive housing, and the absence of new funding to support co-ordination and access initiatives.

OVERALL MINISTRY RESPONSE

In keeping with the Ministry's Mental Health Reform strategy, the Ministry has focused on providing community services for the seriously mentally ill. Since 2003, the Ministry has improved capacity and made program changes through increased funding to community-mental-health agencies by more than $200 million, a 50% increase.

The majority of the funding has been targeted to specific programs that best met the needs of the seriously mentally ill. This includes Health Care Accord funding of $117 million allocated to support Assertive Community Treatment Teams, intensive case management, crisis intervention, and early psychosis intervention. The Ministry also provided an additional $50 million to keep people with serious mental illness out of the criminal justice system, funding crisis response/outreach, short-term residential crisis-support beds, supportive housing, court support services, and intensive case management services. In addition, funding has increased for eating disorder services, Aboriginal mental-health services in Aboriginal Health Access Centres, and consumer/survivor initiatives. Finally, the Ministry has provided stabilization increases for all community-mental-health programs.

The Ministry has been engaged in a four-year evaluation of the new funding's impact and expects a report on this in summer 2009.

In 2003, the Ministry began funding of ConnexOntario to provide clients, families, and providers with 24-hour access to community services across the province as well as a referral service. This will be reviewed for the feasibility of providing wait-time information.

In terms of improved data, since 2002, the Ministry has been phasing in two information systems to increase the government's ability to monitor the community-mental-health system. This was a large undertaking, as minimal data reporting previously existed. The Ministry appreciates that information will improve over time.

In 2007, the Ministry began a pilot project for a Common Assessment Tool for community mental health to assist agencies in assessing client service needs so that clients get the services they need when they need them. Results are expected this year and the Ministry will then consider full implementation. As well, the Ministry published the Mental Health Strategy Map and Mental Health Scorecard, which set out performance indicators. The Ministry is committed to developing this further in the future.

These improvements have all been accomplished at a time of transition. Regional Offices were closed in March 2007, the 14 Local Health Integration Networks (LHINs) were established, and ministry responsibilities devolved to the LHINs on April 1, 2007.

The Ministry continues to be responsible for legislation, policy, and program standards, while the LHINs plan, fund, and manage local health-service providers through accountability agreements. The Ministry and LHINs are working together closely to achieve success for the health system.

OVERALL LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The LHIN responses in this report are joint responses from the three LHINs we visited as part of our audit.

The Central, Champlain, and South West LHINs feel this is an excellent report that provides a status update on client access to service, funding for provider remuneration, and the supply of adequate housing. It also addresses needs for proper evaluation of program standards, performance measures, monitoring, and accountability. Based on extensive community consultation leading up to the development of our Integrated Health Service Plans (IHSPs), the majority of LHINs identified mental health as a priority, and we therefore welcome your recommendations.

We appreciate the report's identification of the issues faced by the LHINs. The report documents a number of long-standing challenges in this sector and points out the LHINs will need to work with the Ministry to meet the needs of Ontarians with mental illness. The report will be helpful to the LHINs to fulfill our mandates.

The report goes on to identify a number of ways the Ministry could better equip the LHINs to fulfill our mandate of working with local health-service providers to generate reliable data that can be used to monitor and improve services, and to enhance collaboration and coordination within the sector.

Detailed Audit Observations

MENTAL-HEALTH STRATEGY

Impact of Mental Illness

Addressing the needs of people with mental illness is a pressing issue for Ontario's health-care system and society as a whole. Various recent studies show that:

- Mental illness affects everyone. One in five Ontarians will experience a mental illness in some form and to some degree in their lifetime. Four out of five will be affected by a mental illness in family members, friends, or colleagues.
- Among those Ontarians with mental illness, about 2.5% will experience what is categorized as serious mental illness, involving profound suffering and persistent disablement.
- People with serious mental illness are likely to be living in poverty. About one-third are homeless and over 70% are unemployed.
- According to the Canadian Mental Health Association, there is a strong correlation between suicide and mental illness. It is estimated that 90% of suicide victims—about 900 suicide cases in Ontario each year—have a diagnosable mental illness.
- According to the London Police Department, the police and criminal justice sector are handling an increasing number of people with severe mental illness, creating pressure on the justice system. For example, police in London, Ontario, have doubled the time they spend dealing with people with serious mental illness in recent years.
- In addition to affecting individuals and their families, mental illness also creates a heavy burden on the economy. According to a study released by the Centre for Addiction and Mental Health in 2006, the estimated total economic cost attributable to mental illness was about $22 billion per year in Ontario.

Ontario Mental-health Strategy

Mental-health policy in Ontario has been moving from one of confining people with serious mental illness in institutions to one of serving them in the community with appropriate and accessible services. This strategy is based on research indicating that community-based care is more effective and cost-efficient. For example:

- To keep someone with serious mental illness in a hospital for a year costs over $171,000. For jail, the yearly cost can range from $100,000 to $250,000. In contrast, it only costs about $34,000 per year to support the same person with mental-health services in the community.

- Community-based mental-health services relieve pressure on other expensive and overburdened services. A Canadian Mental Health Association study showed that, with proper community supports, people use hospital and police services significantly less often. The study cited 86% fewer hospitalizations, 60% fewer emergency room visits, and 34% fewer police interventions.
- Most crimes committed by the mentally ill can be prevented if adequate and appropriate supports are available in the community.

In 1999, the Ministry released *Making It Happen*, a key policy document outlining what was then the Ministry's three-year strategy for restructuring the mental-health system to "support much needed changes in the way services are delivered." The document contained an implementation plan providing the context for the overall reform, and a framework with detailed directions and guidelines for the organization and delivery of core services within the reformed mental-health system.

Mental-health reform requires shifting some existing resources from hospitals to community services. For this reason, the Ministry, in *Making It Happen*, established specific targets and timelines for the number of psychiatric beds it would fund, and the relationship of this funding to funding for community-based services. Essentially, the Ministry determined that the mental-health system should have a 60:40 ratio of spending on community-based services to in-patient services, and that there should be 30 psychiatric beds for every 100,000 Ontarians. Based on recommendations from the Health Services Restructuring Commission in 1999, the Ministry subsequently set an interim target of 35 beds per 100,000 people. It committed to meeting these targets by 2003.

Ministry staff indicated that these targets are still currently relevant and applicable. We found that the Ministry has almost reached its interim target of reducing the number of beds to 35 per 100,000 people—reducing the number of beds per 100,000 people from 40 in 2002/03 to 36 in 2006/07 (see Figure 3). While the Ministry has increased funding for community-mental-health programs, it has still not achieved its target of spending 60% of mental-health funding on community-based services. In the 2006/07 fiscal year, the Ministry spent about $39 on community-based services for every $61 it spent on institutional services. While the Ministry has almost met its target of reducing the number of beds, it has not met the community-based spending-target ratio. The Ministry indicated that the funding-target ratio has not been reached mainly due to the complexity of escalating hospital costs.

The fact that the Ministry has reduced the number of beds significantly yet not met the community-based funding-target ratio suggests that adequate community-based supports may not be available for people being discharged from psychiatric hospitals as a result of bed closures. The success of the restructuring depended upon sufficient community capacity being in place prior to the closure of beds. If people with serious mental illness are released into the community without such services, there is a much higher risk that they will need to be hospitalized or commit acts requiring police intervention.

Figure 3: Status of Community-mental-health Targets for Funding and Number of Beds, 2002/03–2006/07

Source of data: Ministry of Health and Long-Term Care

	# of Hospital Psychiatric Beds per 100,000 People	Ratio of Community to Institutional Funding
Target	**35***	**60:40**
Actual		
2002/03	40	28:72
2003/04	39	27:73
2004/05	38	28:72
2005/06	37	29:71
2006/07	**36**	**39:61**

* The Health Services Restructuring Commission (HSRC) supported an original rate of 30 beds/100,000 population as the ultimate target. However, to ensure that the pace of change is appropriate to achieve an orderly restructuring of mental-health services, the HSRC proposed interim guidelines of 37 beds/100,000 by 2000 and 35 beds/100,000 by 2003.

According to the *Ontario Hospital Report on Mental Health 2004*, hospital readmission and repeat in-patient rates indicate that there was a gap between institutionalized and community-based mental-health services. Too many individuals were returning to hospitals for care because there were poor integration of services, poor community follow-up, inefficient or inappropriate use of resources, poor planning or preparation for discharge, and insufficient help to people attempting to maintain themselves in the community rather than in an institutional setting. The report noted the following:

- Twenty-two per cent of people with mental-health issues discharged in Ontario are either readmitted to hospital or seen in an emergency department within 30 days of discharge.
- Twenty-six per cent of Ontarians hospitalized for mental illness had multiple admissions during one year.

The LHINs we visited indicated that their hospitals still faced challenges regarding the provision of appropriate continuity of care between the institutional- and community-based settings (see Level of Care section of this report).

RECOMMENDATION 1

To better ensure that Ontario's strategy of serving people with serious mental illness in the community rather than in an institutional setting is implemented effectively, the Local Health Integration Networks (LHINs), in consultation with the Ministry of Health and Long-Term Care, should provide the community capacity and resources needed to serve people with serious mental illness being discharged from institutional settings.

MINISTRY RESPONSE

The LHINs have been mandated to plan for health services of their communities, including those with mental-health problems.

Since 2004/05, the Ministry has increased community-mental-health budgets by over $200 million and will continue to invest in this area so that LHINs can develop more community capacity.

This new funding was directed at community-mental-health programs to ensure capacity as people with serious mental illness were being discharged from institutions. In addition, the government has committed an additional $20 million starting in the 2008/09 fiscal year to support community-mental-health initiatives that have an impact on emergency department wait times.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

In full endorsement of the Ontario Mental Health Strategy, the LHINs recognize the need to serve people with mental illness in the community, thereby reducing reliance on less cost-effective institutional beds. While additional resources—specifically, mental-health programming, social supports, and housing—are necessary, the LHINs are committed to improving co-ordination and fostering collaboration among local health-service providers to increase the effectiveness of resources currently available.

ACCESS TO SERVICES

Making It Happen stated that each person with serious mental illness should have access to treatment, rehabilitation, and support services. With deinstitutionalization, timely access to community-based mental-health services is critical for ensuring the best possible outcomes for people with mental illness. However, we noted that timely access to appropriate community-mental-health care is not always available across the province.

Level of Care

The Centre for Addiction and Mental Health conducted a series of Comprehensive Assessment Projects from 1998 to 2002 across the province. These projects assigned clients to one of five levels based on their ability to function independently in the community, overall problem severity, risk issues, and personal strengths (see Figure 4).

The projects demonstrated that a sizable proportion of clients with serious mental illness could be treated in the community given appropriate levels of service and support. They also provided information about the service use and needs of individuals with serious mental illness, and quantified the service capacity. The projects were completed by the end of 2002 and a summary report issued in 2004. The report compared client needs with the care being provided across the province and concluded that people with mental illness were not receiving the proper level of care. For example, only one-third of clients received the appropriate level of care and over half of the persons with mental illness in hospitals could live independently in the community if appropriate supports were available.

The Canadian Institute for Health Information released a report, *Hospital Mental Health Services in Canada 2003/04*, which also pointed to the mental-health system's inability to transfer people with mental illness to a more appropriate level of care. The report noted that 10.9% of all hospital days attributable to mental illness—about 75,000 per year in Ontario—were deemed to be no longer necessary, meaning that people with mental illness could have been discharged to a more appropriate level of care in the community.

Despite new funding initiatives introduced to the mental-health system, this is still an issue according to the LHINs and service providers we visited (see the New Funding Initiatives section of this report). One LHIN noted that hospitals across its region continued to experience pressures to move people with serious mental illness from hospitals to a more appropriate level of care. One of the hospitals in this LHIN indicated that the number of hospital days attributable to mental illness that were deemed to be unnecessary is increasing. Another LHIN also noted that an inadequate supply of community services forces people with serious mental illness to use higher-cost services such as emergency rooms and hospitals.

Figure 4: Levels of Care for Persons with Serious Mental Illness

Source of data: Comprehensive Assessment Projects by the Centre for Addiction and Mental Health

1	"self-management." The client sees a mental-health professional or family doctor once a month or less. Clients navigate the system without case management
2	case management. Support provided about once per week on average
3	intensive case management or Assertive Community Treatment (ACT). Clients need more than weekly follow-up, typically several times per week, with a strong clinical and rehabilitation component
4	residential treatment, with 24-hour intensive supervision and rehabilitation, and provision for up to daily access to clinical treatment, as needed
5	long-term hospitalization

Wait Lists and Times

In our *2002 Annual Report*, we noted that inadequate information about wait lists and times limited the Ministry's ability to assess whether sufficient and appropriate services were available to meet the needs of the seriously mentally ill. During our current audit, we noted that the Ministry had taken the initiative to address this issue by implementing two new systems to collect data for the community-mental-health sector: the Management Information System (MIS) and the Common Data Set-Mental Health (CDS-MH) system. (See the section Information Systems for further detail.)

However, as with any information systems, their usefulness depends upon the accuracy and consistency of information collected. We had concerns about the information on wait lists and times collected in these new systems. Ministry staff told us that this information cannot be used for practical analysis at the provincial level, and comparison among service providers is impossible because reporting needs improvement. Service providers either did not report on wait times or reported inconsistently because they were confused about the definitions of wait times and when to start and end their wait-time calculations. Because ministry information could not be relied upon, we did our own research that indicated that actual wait times were lengthy. Specifically:

- Ministry staff indicated that the average wait time for community-mental-health services was somewhere over 180 days.
- A report released by the Ontario Federation of Community Mental Health and Addiction Programs in 2003 indicated that almost half of the people who need services must wait eight weeks or more and the wait time for 18% of community-mental-health programs can be a year or longer.
- A report by the Fraser Institute in 2007 indicated that people seeking mental-health treatment are likely to be disappointed with their access to it. According to the report, in Ontario, wait times from referral by a general practitioner to treatment exceed four months, and wait times from a meeting with a specialist to treatment are more than 148% longer than psychiatrists feel is appropriate. The report concludes that a great many people with mental illness are experiencing a deterioration of their condition before they get the care they need.
- The service providers we visited in early 2008 generally had long wait lists and wait times. For example, one service provider indicated that its wait list had 85 clients, who had been waiting for community-based services for four to eight months. Two service providers stated that wait times for access to psychiatrists could range from two to six months. Two other service providers told us that it took about eight months to a year for clients to get services from selected Assertive Community Treatment teams.

Co-ordination of Access to Services

Released in 1999, *Making It Happen* stated that "access to mental health services in Ontario can be confusing and time-consuming for clients and their families/key supports." Nine years later, this continues to be an issue. At the time of our current audit, we noted that there was a lack of formal co-ordination and collaborative process among the various stakeholders, including the community-mental-health service providers, the relevant ministries, and the LHINs.

Between Community-mental-health Service Providers

Since April 2007, the LHINs have been responsible for co-ordination among service providers, but in many areas of the province there is still minimal co-ordination among service providers that provide similar or identical services. One of the reasons the LHINs were created was that the Ministry was concerned about the lack of co-ordination and integration of services in the community-mental-health sector—in essence, the sector was a confusing system of many service providers and multiple access points. During our visits to the LHINs and service providers, we noted that co-ordination of access to services were generally lacking. Specifically:

- A survey by one LHIN found that lack of co-ordination and lack of access to services were the most mentioned gaps or challenges identified by the service providers.
- There has been no funding specifically for co-ordination. The LHINs as part of their mandate encourage service providers to work together, but we were advised that, without specific funding, this is less likely to occur. Smaller service providers are at a particular disadvantage because they can spare fewer resources for co-ordination.

- There was no guidance from the Ministry or the LHINs to service providers on how co-ordination of access was to be done.
- Service providers developed programs and operated in isolation from one another, in what is often referred to as a "silo mentality." This has fragmented what should be a continuum of care. Different service providers have developed different processes for such key activities as assessing clients, determining eligibility, and referring clients to other services. This lack of consistency has led to duplicated efforts, disjointed services, and clumsy transitions between services.
- The Ministry's initiative in funding centralized serves provided by ConnexOntario has not been expanded to include important information, such as availability of a service at a particular point in time and what the wait times might be.

Notwithstanding these observations, we note that the Ministry has introduced a common assessment tool to ensure the consistency of assessing clients in the community-mental-health sector. As well, we did note some local initiatives that should be considered best practices. These include collaborative partnerships, centralized and triage wait lists, and centralized intake processes. Such initiatives help to reduce wait times, eliminate confusion for clients, and facilitate a more accessible and co-ordinated system. The Ministry and the LHINs should encourage and support the adoption of these best practices to enhance co-ordination.

Between Ministries

Co-ordination between ministries needs significant improvement, especially in serving people with what is referred to as "dual diagnosis"—a mental illness combined with a developmental disability of significantly below-average intellectual and adaptive functioning. People with dual diagnosis obtain services through two distinct sectors: the developmental sector, funded by the Ministry of Community and Social Services, and the mental-health sector, funded by the Ministry of Health and Long-Term Care. One service provider we visited that deals with people with dual diagnosis mentioned that the ministries did not agree on the definition of dual diagnosis. A research study issued by the Ontario Mental Health Foundation in December 2005 also noted inadequate collaboration between ministries:

- The guidelines released jointly by the two ministries in 1997 were unclear in terms of who was eligible for services and the responsibilities of each ministry to provide such services. This lack of clarity resulted in people being denied services by both ministries. As the report put it, clients "ping pong between two sectors."
- The two ministries developed a work plan in 1998 to describe expected outcomes, target dates, and their responsibilities in implementing the 1997 guidelines. However, the groups that developed the plan disbanded and there has been no follow-up activity. Because of "silos" within the ministries, not enough inter-ministerial planning is presently occurring and communication between regions is limited. In 2005, the two ministries created a new process to update the guidelines, but completion of this work was deferred owing to the introduction of LHINs and the implications for new relationships.

Between the LHINs and the Ministry

Since April 1, 2007, the LHINs have focused on administering and overseeing the delivery of community-mental-health programs while the Ministry has assumed a stewardship role in providing overall direction and leadership for the system. The Ministry created the LHIN Liaison Branch to serve as the primary point of contact for the LHINs, which are, in turn, responsible for relationships with local health-service providers.

In evaluating ministry and LHIN readiness for and execution of the April 1, 2007, transfer of authority to the LHINs, the Ministry's internal audit services identified challenges in several areas, including further clarification of policies, roles, and responsibilities; and the continued need for knowledge transfer from the Ministry and for more timely and useful data if they were to be fully capable of assuming their responsibilities with respect to community mental health.

Our visits to three LHINs in early 2008 confirmed that these challenges still largely remained.

RECOMMENDATION 2

To help ensure that people with serious mental illness have consistent, equitable, and timely access to community-based services that are appropriate to their level of need, the Ministry of Health and Long-Term Care should:

- improve provincial co-ordination with the Local Health Integration Networks (LHINs) and other ministries, which are involved in serving people with mental illness; and
- provide support to the LHINs—particularly in terms of knowledge transfer and data availability—that would enable them to effectively co-ordinate and oversee service providers as intended.

The Local Health Integration Networks should:

- work with service providers to improve the reliability of wait-list and wait-time information;
- collect and analyze wait lists and wait times and use such information in determining the need for and prioritizing specific types and levels of service; and
- provide the necessary assistance to enhance co-ordination and collaboration among health-service providers.

MINISTRY RESPONSE

In 2006, the Ministry funded ConnexOntario for mental-health agencies, where the public can access information 24 hours a day, seven days a week, about the range of community-mental-health services offered in Ontario. The Ministry also supports the development of an efficient and accountable service system by providing planning information to system managers.

The Ministry agrees that the LHINs will need to work with their health-service providers to ensure that data about their services are regularly uploaded to ConnexOntario. This will ensure that the public has the most up-to-date information and that the LHINs can rely on information from ConnexOntario for service-planning purposes and wait-list management.

The Ministry will work with ConnexOntario to establish provincial wait-time availability as well as standard reporting on wait times.

The Ministry will work with the LHINs and health-care providers to introduce initiatives such as the common-assessment tool. This tool is expected to make a significant contribution to co-ordination and collaboration by enabling providers to share information about their clients during the program admission and discharge process.

The LHINs were created to plan and integrate services. Key to this mandate are improvements to the co-ordination of services to improve access to services and continuity of care for clients requiring mental-health and other services.

To support the LHINs in the assumption of their new roles, the Ministry held numerous and various types of knowledge-transfer and training sessions to familiarize the LHINs with their health-service providers, financial-management processes, health-information management, and other subjects. The Ministry will continue to work with the LHINs to identify knowledge gaps and training needs and provide assistance to them as required.

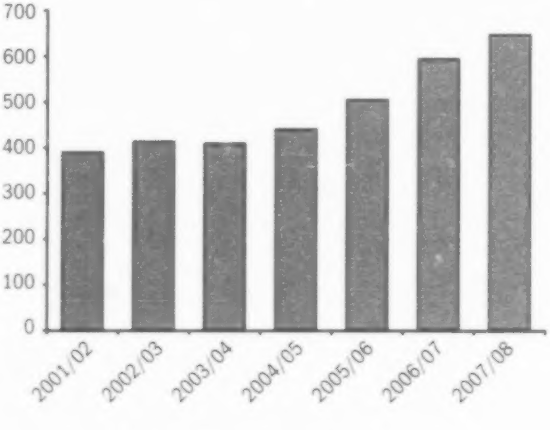
The Ministry will also continue to work with the LHINs and other ministries where joint approaches are required to impact services to people with mental illness.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

Timely access to mental-health services remains the principal barrier to effective care. This point has been underscored in LHIN community-engagement sessions. In an era of tight resources, the Ministry needs to provide the tools for LHINs to work in conjunction with local providers to improve data quality, implement shared and more central intake, and actually manage waiting lists. Equally, both the Ministry and the Ministry of Community and Social Services need to investigate pooling resources for citizens with the most complex needs. Typically, these clients are not well served, and as a result consume disproportionate administrative resources that could be better spent managing waiting lists and allocating resources for less dependent clients before they fall into a crisis.

Figure 5: Community-mental-health Expenditures, 2001/02–2007/08 ($ million)

Source of data: Ministry of Health and Long-Term Care



FUNDING

From the 2003/04 to the 2007/08 fiscal years, community-mental-health expenditures increased by 58%—from $409 million to $647 million (see Figure 5). This was mainly attributable to several new funding initiatives, especially $117 million over four years from the federal government and $50 million over two years from the Ministry (see New Funding Initiatives).

New Funding Initiatives

In recent years, two significant new funding sources added resources to the community-mental-health system to enhance existing services:

- In 2003, the federal government agreed to provide new funding under the First Ministers' Health Care Accord (known as "Accord funding"). Starting in the 2004/05 fiscal year, the federal government allocated $117 million over four years for the provision of expanded services in crisis intervention, intensive case management, early intervention in psychosis, and Assertive Community Treatment (ACT) teams. (ACT teams are multidisciplinary teams usually comprised of clinical staff, including a psychiatrist and nurses, plus a social worker, occupational therapist, and other specialists. Each team provides a full range of services to a roster of about 80 to 100 clients.)
- Through its Service Enhancement funding, the Ministry invested $50 million over two years, starting in the 2004/05 fiscal year, to keep people with serious mental illness out of the criminal justice and correctional system. Programs that received additional funding included short-term residential crisis beds, supportive housing, and diversion/court support (which assists persons with mental illness who are in conflict with the law, and their families, to navigate the legal process and link them to a variety of community-based mental-health services).

While the new strategic investments have increased capacity in the community sector, we found that the new funding was only allocated to certain service providers: the majority of providers received no additional money beyond a 1.5%

annual increase in the last few years. The Ministry indicated that many providers did not receive additional funding because the government targeted the funding to specific programs that met specific program criteria and local needs. When we requested documents setting out these criteria for the allocations of the new funds to the service providers, the Ministry informed us that the decisions were made by the regional offices, which no longer exist, and the documents were not available.

Existing Community-mental-health Programs

Most community-mental-health service providers have indicated to the Ministry that, despite the new funding initiatives, existing programs have remained significantly underfunded. Our review of funding showed that, prior to the 2004/05 fiscal year, community-mental-health programs received no increase in their base funding for more than a decade. In 2004/05, the Ministry provided a 2% increase, followed by a 1.5% increase in each of the 2005/06, 2006/07, and 2007/08 fiscal years. The LHINs we visited stated in their quarterly and annual reports that, following so many years of flat-line budgets, the recent 1.5% increases have been inadequate for service providers to maintain current service levels. Furthermore:

- Service providers anticipated that increases of 3% to 5% are required to match union settlements, merit increases, and inflation. With no further increases expected, service providers have reduced service volumes and staff levels in order to balance their budgets. The service providers we visited indicated that they have also had to freeze wages and cut back on spending for infrastructure such as facilities and information technology.
- A survey conducted in late 2002 by the Ontario Federation of Community Mental Health and Addiction Programs found that 80% of service providers had to close programs temporarily to cope with fiscal pressures, and 25% closed programs permanently. Almost three-quarters of service providers had lost staff to higher-paying jobs outside the mental-health sector and could not afford to replace them because they were unable to offer competitive salaries.
- Staff turnover within the community-mental-health sector is high—as much as 40% a year in some regions. As well, community-based staff, as in other community-based systems, often receive lower wages than their counterparts in hospitals, making recruitment and retention of qualified staff difficult and eroding the capacity of the community-mental-health system at the very time that more patients were being transferred from institutions back to the community.

Funding Based on Identified Needs

According to the federal document *Review of Best Practices in Mental Health Reform*, the allocation of resources is more effective and equitable when it is based on actual needs rather than on what has been funded in the past. Needs-based funding directs resources to where the need is greatest, regardless of historical relationships with service providers and past patterns of use. In our *2002 Annual Report*, we raised this issue, yet the Ministry has still not implemented a needs-based funding model as a result of the complexity of the community mental-health system.

In 2002, we noted that the historically based funding for community-mental-health programs was contributing to significant variations in per person funding in different regions of the province. As long as increases remain a percentage of the previous year's funding, the LHINs with high historical funding will receive even more in the future regardless of their needs. During our current audit, we found that the significant variations in funding remain. Specifically:

- The average per capita funding for community-mental-health services for the entire province in the 2007/08 fiscal year was about $42, but it varied from a high of $115 in one LHIN (where population was declining) to a low of $19 in another LHIN (where population was increasing).

- If funding continues to be based on historical patterns rather than population characteristics, needs, and health risks, funding disparity will become even more exaggerated. As Figure 6 shows, the gap between the lowest and the highest per capita funding levels will increase from $94 in 2006/07 to $101 in 2009/10. Inequitable regional funding essentially means that people with similar needs may not receive the required services, depending on where in Ontario they live.

The Ministry has acknowledged the problem of historically based funding. To attempt to rectify this, it allocated the new federal Accord funding and its own Service Enhancement funding according to population. However, it did not take into consideration other relevant factors, such as the distance between services, which would improve the formula for allocation. The Ministry has indicated that it plans to implement a needs-based model, the Health Based Allocation Model, in the community-mental-health sector, once it is able to collect the data and cost estimates necessary to properly assess the specific needs of people across the province.

Figure 6: Range in per Capita Funding for Community-mental-health Programs, 2006/07–2009/10 ($)

Source of data: Ministry of Health and Long-Term Care

	Actual		Forecast	
	2006/07	2007/08	2008/09	2009/10
provincial average	40	42	44	44
LHIN with highest level	112	115	120	122
LHIN with lowest level	18	19	20	21
gap between highest and lowest	**94**	**96**	**100**	**101**

RECOMMENDATION 3

To ensure that people with similar needs are able to receive a similar level of community supports and services, the Ministry of Health and Long-Term Care and the Local Health Integration Networks should collect complete data and adequate cost estimates to review regional variations in population characteristics, needs, and health risks so that funding provided is commensurate with the demand for and value of the services to be provided.

MINISTRY RESPONSE

The LHINs have been mandated to plan for the health needs of their communities, including those with mental-health issues. The majority of LHINs have identified the need to address mental health as a priority and are mandated to realign services within their regions to meet these needs.

To support the LHINs' efforts, the Ministry will continue its work on the new Health Based Allocation Methodology (HBAM) initiative for the community mental-health sector.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The LHINs recognize significant disparities in remuneration for similar work between the institutional and community sectors. As labour shortages increase, the situation will worsen, and unless corrective measures are taken, pay differentials will continue to seriously undermine the strategy to move clients from institutions into the community. Furthermore, as the report correctly points out, resources for programming vary enormously from LHIN to LHIN and from community to community within individual LHINs. The historically uneven distribution of resources results in significant inequities in access to service, and the Ministry needs to help the LHINs to redress the imbalance.

HOUSING

Housing is a key determinant of health, and, as such, is a critical component in an effective community-mental-health system. When people with mental illness have choice and control over their housing, they are more likely to report increased well-being, psychological stability, and independent functioning. Supportive housing is a form of housing that offers individualized, flexible, and rehabilitation-oriented supports to help people with mental illness improve their community-living skills and maximize their independence, privacy, dignity, and decision-making abilities. Various types and levels of support services are provided within the residences, such as case management, social rehabilitation, assertive community treatment, and crisis intervention. Without accessible housing and support, successful community living and recovery are difficult. Homelessness is also a frequent experience of people with serious mental illness in Ontario. On average, 30% to 35% of homeless people have mental-health problems.

The Ministry is the sole provincial funder for both the support services and accommodation components of supportive housing. At the time of our audit, about 7,900 mental-health supportive housing units, managed by 86 housing providers, were available in Ontario. About 3,300 of these units were "dedicated" units and 4,600 were "rent supplement" units:

- Dedicated units are those that have been purchased by housing providers using government funding. They are generally in the form of houses and apartment-style buildings. Housing providers, which are not-for-profit, own and operate these units with the assistance of subsidies from the Ministry to cover operating costs.
- Rent supplement units are those that are located in private apartment buildings. Housing providers work with private landlords to secure these units for their clients. The Ministry pays a rent subsidy to housing providers to assist with clients' monthly rental payments.

Housing Needs and Capacity

Making It Happen, released in 1999, stated that "in order to be consistent with current provincial initiatives, the Ministry will need to review the housing needs of [the homeless/socially-isolated] population … who … are also mentally ill." In our *2002 Annual Report*, we noted that the Ministry needed to address the number and types of housing units required in different areas of the province. In our current audit, while we found that recent housing initiatives have attempted to address inequities across the province, further improvements are required.

Availability

There is a critical shortage of supportive housing in Ontario. The federal government's 2006 report *Out of the Shadows at Last* called for the development of 57,000 more affordable housing units in Canada over the next 10 years to address this shortage. On the basis of Ontario's population, we estimated that about 23,000 of these units would be needed in Ontario.

The long wait times individuals experience before getting into supportive housing is evidence that the need for supportive housing is much greater than its supply. A study by the Ontario Non-Profit Housing Corporation in 2006 revealed that the average wait time for supportive housing could range from one to six years depending on where in Ontario an individual lived.

Another study performed by a team of seven researchers from four Ontario institutions in 2005 indicated that the mental-health housing sector lacked systematic and reliable data sources and a monitoring strategy, based on outcomes, to manage and improve housing stock and supports and to support policy development. The study also noted that the sector did not have the data needed to determine the number and types of new units that should be created.

Levels of Service

While the Ministry has implemented a number of new supportive housing units, there is a mismatch between the care clients require and what they actually receive, which points to the need for better assessment and planning processes, and for more housing and support options. The 2004 report from the Comprehensive Assessment Projects of the Centre for Addiction and Mental Health noted that services in the community-mental-health system related to housing were not allocated on a rational basis.

Even when people with mental-health problems were able to find housing, they often did not receive the appropriate level of housing supports in the community to meet their needs. On the one hand, there was an oversupply of supervised housing. Of those in settings that provide a high level of support 24 hours a day, only 14% were identified as requiring that level of support. On the other hand, the needs of one-third of clients who required more intensive community support were not being met.

Housing Distribution and Vacancy Rates

Supportive housing units are unevenly distributed across the province. A research report issued by the Centre for Addiction and Mental Health in 2005 noted that "there is an inadequate supply of housing programs, evidenced by long waiting lists. Availability across the province is uneven, with higher concentrations of programs and supports in certain areas." The Ministry indicated that some areas had more housing limits because certain initiatives targeted urban centres where homelessness was a major problem. While the Ministry has utilized housing allocation models in recent years to try to address historical uneven distribution, our analysis of the number of housing units each LHIN has relative to its population showed that:

- The distribution of supportive housing varied widely among the LHINs, ranging from a high of 273 units per 100,000 population in one LHIN to a low of 20 units per 100,000 people in another.
- Three LHINs each accounted for 9% of the provincial population, yet the number of housing units associated with each of them varied significantly. One had 32% of all housing units in the province, while each of the other two had only about 5%.

Although supportive housing is generally inadequate in Ontario, we found unusually high vacancy rates in certain areas. The Ministry allows the housing providers to budget for a 3% vacancy rate each year. However, on the basis of our review of 2006/07 vacancy rates and the costs of 10 housing providers, we noted that some housing providers were having difficulty filling their housing units:

- The 10 housing providers we reviewed incurred about $1.1 million in vacancy costs and had an average vacancy rate of 8%.
- Vacancy rates and costs were especially high for two housing providers in the Greater Toronto Area. Their total vacancy costs were about $860,000, based on the housing providers' year-end reports, which had not been reviewed by the Ministry at the time of our audit. Also, their respective vacancy rates were 26% and 14%—substantially higher than the Ministry's target rate of 3%. The Ministry informed us that the high vacancy costs and rates were mainly attributable to the Service Enhancement initiative that was still in its implementation phase. Therefore, it would take time for these two housing providers to fill up the housing units.

One-time Capital Funding

The Ministry provides housing providers with one-time funding for their capital reserve fund, both for specific repair work and for future capital repair needs at their housing sites. In the 2006/07 fiscal year, the Ministry paid $11 million for one-time capital reserve funding. Within the areas covered by the seven former regional offices, we selected one housing provider from each region that received the greatest amount of one-time funding. Our review of the seven files found a number of examples where the funding was not used in a timely and cost-effective manner.

In one example, a housing provider purchased 15 units in two apartment buildings in 2003 for about $1.6 million (about $105,000 per unit) with a capital grant of about $1.8 million provided by the Ministry. The difference between the purchase price and the capital grant (about $270,000) was initially provided for renovation and consulting costs for the two buildings. Prior to the purchase, ministry staff reviewed an inspection report prepared by an independent consultant and conducted a walk-through of the units. The Ministry confirmed that the units were in fair condition, requiring some minor repairs and renovations, which were estimated by the independent consultant to be less than $200,000. However, in 2007, the housing provider still had not started the renovations, and tender documents indicated that about $780,000 would be needed for renovations to the 15 units and common areas. Specifically:

- Up to five of the 15 units were not repaired in a timely manner.
- Our review of the file indicated that the five units had been vacant for two to five years owing to their uninhabitable condition. Leaving these units unoccupied was particularly problematic because they are located in the LHIN that has the lowest percentage of supportive housing units relative to its population.

In another example, a housing provider requested $68,000 in 2006, based on a quote from a contractor, to fix water leakage and mould problems in the basement of a house. Ministry staff conducted a site inspection and found the quote to be reasonable. As a result, in early 2007, the Ministry provided $71,000 and advised the housing provider to use the extra $3,000 to hire an engineer to investigate the issue further. At the time of our audit, the repairs had not started. On March 31, 2008, the Ministry advanced an additional $50,000 to the housing provider for the purpose of "further investigation into water penetration, damage to the foundation walls and ongoing repairs." We have three main concerns:

- The $71,000 initially provided by the Ministry was sufficient to cover both the cost of repairs ($68,000) and building audit ($3,000), and the Ministry had no documentation to support the additional funding of $50,000.
- In addition, $50,000 was an unreasonable amount for updating a previous assessment done only two years ago. Ministry staff told us that the $50,000 was an arbitrary amount allocated because money from the one-time capital fund was available and had to be disbursed before the end of the 2007/08 fiscal year. The Ministry told us it wanted the housing provider to have additional funds in case more work was required upon completion of the audit.
- Aside from financial issues, at the time of our audit there had already been a one-and-a-half-year delay in starting the repair work in the basement, which was serving as a common area for the residents. The main reason for the delay was that the housing provider was deciding whether to sell the property, which was very old and becoming costly to maintain.

RECOMMENDATION 4

To ensure that adequate supportive housing is available to provide people with serious mental illness with appropriate, equitable, and consistent care, the Ministry of Health and Long-Term Care and the Local Health Integration Networks should:

- improve data-collection mechanisms and system monitoring to determine the number and type of housing units needed; the areas with serious shortages of housing; the levels of unmet needs, occupancy and vacancy; and the adequacy and appropriateness of care provided to housing clients; and

- ensure one-time capital funding is being spent in a timely and prudent manner.

MINISTRY RESPONSE

Over the last four years, a total of 2,250 new supportive units have been implemented with a budget of approximately $36.5 million. The allocation approach to these new units was based on areas of the province with high population growth and high demand, considering the current distribution of existing supportive housing.

The Ministry will continue to work with the LHINs to ensure that capital funding for projects being undertaken by LHIN health-service providers is used in a timely and prudent manner.

The LHINs have been mandated to plan for the health needs of their communities, including those with mental-health issues. The majority of LHINs have identified the need to address mental health as a priority. An important part of the local planning process will be to identify needs for supportive housing, as well as determining an appropriate mix of housing to meet the needs of people with mental illness within the LHIN.

As well, to support the LHINs' efforts to achieve their mandate to plan for the health needs of their communities, including those with mental-health issues, the Ministry will continue its work to incorporate demographic and other data related to mental health into the new Health Based Allocation Methodology initiative.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

Supportive affordable housing is the cornerstone of cost-effective community care for people with mental illness. The LHINs need to document local variations in appropriate housing stock, and to work with the Ministry and various levels of government to ensure an adequate supply if the strategy is to succeed. As identified in the report, local monitoring of funds brought into the community to develop and maintain housing stock needs to be improved.

PROGRAM STANDARDS

As an increasing number of people with serious mental illness receive services in the community, it becomes all the more important that there be measurable and meaningful program standards to ensure that client needs are adequately met and that the services provided represent value for money spent. Standards set expectations for program requirements, such as staff qualifications and staff-to-client ratios, so that the services are delivered uniformly across the province and incorporate evidence-based practices (that is, practices that are supported by research findings and/or demonstrated as being effective through a critical examination of current and past practices). As was the case in our last audit in 2002, the Ministry had not developed standards defining acceptable services and service quality for the vast majority of the programs funded. Without such standards and criteria, it is difficult to assess whether people with serious mental illness are receiving the level and quality of services they require.

Programs with Provincial Standards

Currently, provincial standards only exist for assertive community treatment teams, intensive case management, and crisis intervention. Even though standards exist for these programs, we found that neither the Ministry nor the LHINs were monitoring the level of services actually being provided against these standards. A number of service providers we visited told us that neither the Ministry nor LHINs monitored the service providers' implementation of standards. They told us that in the past five years, no staff—whether from the Ministry, from a former ministry regional office, or from a LHIN—had contacted them for monitoring purposes.

Assertive Community Treatment Teams

Assertive Community Treatment (ACT) teams are an alternative to hospitalization for people with serious mental illness. ACT teams provide ongoing, individualized, intensive support, helping clients develop the skills they need to live in the community. In the ACT model, a multidisciplinary team provides a full range of services to a roster of clients (about 80 to 100). Each team usually comprises 9 to 12 full-time clinical staff, including a psychiatrist, registered nurses, a program assistant, a team co-ordinator, and, at a minimum, a social worker, occupational therapist, substance abuse specialist, vocational specialist, and other specialists. ACT team services are available around the clock, seven days a week.

The Ministry began to implement the ACT model across the province in 1998. As of March 2008, there were 79 ACT teams in Ontario, compared to 60 at the time of our 2002 audit. The Ministry developed provincial ACT standards in 1998 and revised them in 2005. The standards describe staff requirements, program organization and operations, admission criteria, and service capacity and components.

In March 2008, the Ministry released its report covering the activities of the 72 ACT teams during the 2006/07 fiscal year. According to this report, there were about 4,500 clients registered with ACT teams across the province, and the average caseload for ACT teams was 63 clients, which was below the targeted caseload of 80 to 100 clients per team. Our review of ACT information in the Ministry's database showed that the staff-to-client ratio per team ranged from 1:0.4 to 1:14, indicating that some teams had more than two staff for each client served while others had only one staff member per 14 clients. Our discussion with ministry staff indicated that:

- They were unable to ensure the accuracy and reliability of data provided by the ACT teams because ACT data are self-reported and the community-mental-health sector is relatively new to data reporting.
- With unreliable data, they were unable to measure the performance of each ACT team against the standards by compiling statistics such as staff-to-client ratio per team, funding per team, enrolment capacity per team, and wait times per team.

When the Ministry developed the initial ACT standards in 1998, it also set up a voluntary Technical Advisory Panel, with the purpose of providing technical information for developing and implementing programs. The panel, which meets four times a year, includes representatives from ACT teams in each area of the province, as well as family organizations, clients, the Psychiatric Patient Advocate Office, and senior ministry staff. Panel members indicated that there is no mechanism for monitoring compliance with ACT standards. The Ministry indicated that over the past two years, the Ministry and the panel created orientation and training sessions for new teams as well as teams that were experiencing challenges.

We noted that in 2001, the Ministry had a technical support group with two senior clinicians to assist in implementing standards, educating and training teams, reviewing team functions, and developing a future ACT monitoring and compliance-assessment process. However, the Ministry informed us that it had disbanded the group owing to limited funding.

Intensive Case Management

Another program with provincial standards is intensive case management (ICM), which promotes independence and quality of life through the co-ordination of appropriate services and the provision of constant and ongoing support as needed by the clients. Individual case managers provide outreach, assessment, planning, and advocacy, and they link clients with other treatment and rehabilitation services, such as social recreation, employment programs, and supportive housing. Unlike ACT, intensive case management does not typically provide round-the-clock service.

The Ministry developed standards for ICM in 2005, but has not yet monitored service providers' performance against the standards. For example, ministry staff indicated the Ministry cannot monitor such standards as "case manager-consumer ratio of no more than 1:20 must be maintained," "service provision must be focused in the community not in the office," and "services must be available a minimum of eight hours/day, five days a week," because its information systems do not collect data on the number of case managers, location of service provision, and frequency and duration of client contacts. Neither the Ministry nor the LHINs conduct any site visits to assess program delivery.

Programs with No Provincial Standards

The following programs, which served about 10,000 clients across the province in 2006/07, are indicative of the majority of community-mental-health programs for which the Ministry has not developed provincial standards.

Short-term Crisis Residential Beds

Short-term crisis residential beds ("safe beds") are used for temporary emergency shelter as an alternative to incarceration or hospitalization. Service is provided for people with serious mental illness who are in crisis or have come in contact with the law. People remain in the safe-bed setting for a short period while linkages and referrals are made to other community programs. The cost per bed is about $85,000 per year. At the time of our audit, we noted that:

- The Ministry had not developed standards to specify where these beds should be located and what qualifications staff monitoring the beds should have. Some beds were located at various sites including a motel, a private home, and on the main floor of an apartment building.
- The Ministry's information systems did not maintain data on the number of beds available in the province and the length of time the beds were occupied. This lack of data hampered the Ministry's ability to monitor whether the demand for such services was being met and the impact of the services on the mental-health system.

Ministry staff agreed that there is a need to ensure that the beds committed by service providers have indeed been set up and services are being provided to the correct population.

Community Treatment Order

In 2000, the government introduced legislative changes to ensure that people with serious mental illness get the care and treatment they need in a community-based system. The new legislation established that a certified physician may issue a Community Treatment Order (CTO), which provides an individual with community-based treatment or care and supervision that is less restrictive to the person than being detained in a hospital environment. Individuals with a CTO are required to comply with the order to report to a physician every six months. There were 975 CTO clients as of November 2007. A review of the CTO program conducted by an external consultant for the Ministry in 2007 noted that:

- Although the CTO program had been in place for over seven years, the Ministry still had not developed standards for CTO co-ordinator positions, provided a common job description for CTO co-ordinators, or defined roles and responsibilities for parties involved. Thus, there was no assurance of service consistency.
- The Ministry designed forms, set up mechanisms for collecting data, and developed a

database for CTO information, but has not designated anyone to manage and maintain the data. Thus, the Ministry has not produced any systematic analysis or reports that would facilitate CTO monitoring. Some CTO co-ordinators have stopped submitting data because they never received any feedback from the Ministry and realized that the Ministry likely did not use the information.

Early Intervention in Psychosis

The Early Intervention in Psychosis Program aims to reduce the severity of untreated psychosis and to increase the likelihood of recovery through early and appropriate detection and response. The first onset of a psychotic illness usually occurs between the ages of 15 and 34. Because the program is a relatively new approach to mental-health care, the key components for effective and efficient operation have not yet been put in place. For example:

- At the time of our current audit, the Ministry was still in the process of developing program standards. It had created a policy framework in 2004, but that framework merely assists service providers in planning and developing programs—it does not set standards.
- The policy framework defines the priority population for early intervention services as those people between the ages of 14 and 35, but we found that this policy was not consistently applied. We selected five service providers and reviewed their admission requirements. Our review found that the majority of service providers accepted only those clients who were older than 15. Thus, the youngest segment of the priority population (ages 14 to 15) is at risk of not being served by either the child or adult mental-health service providers, creating a potential service gap.
- The Ministry will need to establish performance and outcome measures, monitoring mechanisms, and evaluation systems to enable it to assess the success of this new program and identify effective practices to communicate to LHINs and service providers.

RECOMMENDATION 5

To ensure that service providers are delivering comprehensive, consistent, and high-quality services in a cost-effective manner across the province, the Ministry of Health and Long-Term Care and the Local Health Integration Networks should:

- improve data-collection mechanisms and reporting requirements to obtain relevant, accurate, and consistent information across the province for performance monitoring purposes; and
- establish provincial standards, performance benchmarks, and outcome measures for at least the more critical programs against which the quality and costs of services can be evaluated.

MINISTRY RESPONSE

In accordance with the ministry mandate for establishing provincial policy and program standards, the Ministry will establish standards for early psychosis intervention and short-term crisis beds.

The Ministry will also be focusing on existing data-quality issues, including the provision of education related to data standards to both data providers and users.

The Ministry will utilize its data and organized reporting structure, such as the mental-health scorecard, to establish performance expectations and benchmarks in collaboration with the LHINs and stakeholders. The LHINs will work with the health-service providers to improve their compliance with these requirements and will utilize the measures to monitor service providers. It is expected that new standard dashboards for the Ministry, LHINs, and agencies will be created by 2010.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The report highlights the need for program standards and to measure health-service-provider ability to meet the standards. The LHINs appreciate the need to work with the Ministry and experts in the field to establish appropriate standards and measures for care and treatment. This will facilitate the LHINs' ability to monitor the service provider, and to determine local needs, priorities, and strategies as well as improvements required to increase accessibility, co-ordination, and capacity.

PERFORMANCE MEASUREMENT AND REPORTING

Making It Happen states that one of the goals of mental-health reform is to "achieve clear system/service responsibility and accountability through the development of explicit operational goals and performance indicators." Performance indicators are quantifiable measurements, established beforehand, that reflect the critical success factors of a program or service. They provide a meaningful method for measuring and reporting on progress in achieving objectives. Good performance reporting should include the following attributes:

- clear goals and objectives;
- complete and relevant performance measures;
- appropriate standards and targets for measuring results;
- reliable systems for gathering the necessary information; and
- a reporting mechanism for regularly communicating accomplishments and areas requiring corrective action.

Information of this nature would enable the Ministry to make more informed decisions about funding and other matters.

Mental-health Scorecard

In our *2002 Annual Report*, we noted that the Ministry had limited information about whether community-mental-health resources were being used efficiently and effectively. Since then, the Ministry has initiated processes to develop performance indicators to measure community-mental-health services and outcomes. In January 2007, the Ministry rolled out its Mental Health Strategy Map and Mental Health System Scorecard to create strategic alignment and improve performance. The strategy map articulates a mission, strategy, and goals while the scorecard defines a set of performance indicators and measures. By linking the strategy map goals with the scorecard, the Ministry gains a better understanding of what it needs to do to improve performance, achieve desired outcomes, and increase accountability.

Although the scorecard identifies 29 indicators, we found that about half of them were not ready for full implementation for the following reasons:

- Data sources have not been available for some indicators, such as the availability of co-ordinated intake/access processes, family satisfaction with services, and use of electronic referral and tracking mechanisms.
- Data used for some performance indicators were either incomplete or of poor quality. This included availability of resources for information management, human-resources capacity, wait times, as well as client-outcome information such as criminal involvement, employment rate, and financial status. Data were incomplete because many service providers did not provide data. Data from service providers that did provide information were often of poor quality and unusable because of the service providers' confusion about the interpretation of data definitions, such as "wait times," and about reporting requirements.

In addition, the Ministry has not determined performance indicators to measure critical aspects of program delivery such as responsiveness to client needs, sustainability, and equity in the mental-health system, client continuity of care, and clinical outcomes. We also noted that the Ministry still has not developed measurable and meaningful targets or benchmarks for each performance indicator, despite our having identified this need in both our *1997 Annual Report* and *2002 Annual Report*. In both 1997 and 2002, the Ministry indicated that it was developing targets or benchmarks based on best practices for mental-health services. Yet in our current audit—11 years after we first raised the issue—we found that no target or benchmark has been determined. The Ministry acknowledged that the availability of performance targets or benchmarks is still very limited. This hampers its ability to measure and compare performance between service providers.

The Health System Performance Research Network (Network), known as the Hospital Report Research Collaborative (Collaborative) prior to 2008, is a network of university-based researchers working on projects to identify, validate, implement, and exploit performance information of value to the health system in Ontario. In 2004, the Collaborative noted that the mental-health sector had very sparse performance reporting. A study by the Network in 2008 mentioned that "there has been very little performance measurement activity in the community-mental-health sector, and as a consequence, the field is relatively naïve in this area."

The recent Mental Health Strategy Map and Mental Health System Scorecard are good initiatives. However, performance measurement—that is, assessing how effective a program is in meeting the needs of people with mental illness—still needs significant improvement.

Information Systems

The effective management of large, diverse programs like community-mental-health services requires consistent data collection and reliable information systems. Service providers need timely and accurate information to effectively manage their operations and promptly respond to client needs. The Ministry and the LHINs also need appropriate and relevant information to monitor the costs and utilization of services and the performance of service providers. Our last three audits of this area in 1987, 1997, and 2002, respectively, all noted the lack of an integrated client information system as a critical weakness.

Given this history, we are pleased to note that in 2003/04, the Ministry implemented two new systems to collect data for the community-mental-health sector: the Management Information System (MIS) and the Common Data Set-Mental Health (CDS-MH) system. The MIS collects financial and statistical data from service providers on a quarterly basis. It reflects the requirements of Ontario Healthcare Reporting Standards, which provide the framework for improving consistency in the reporting of financial and statistical information by service providers. The CDS-MH captures administrative and clinical data from service providers twice yearly. It is a uniform data set that collects aggregate client information on wait times, service utilization, and outcome measures. The CDS-MH does not yet maintain any client-level data, such as the age, gender, or condition of individual clients.

Our review of these two systems indicated that 80% to 90% of service providers are now submitting data and complying with the reporting requirements. Notwithstanding, ministry staff did indicate that the nature of some mental-health service providers made information collection and management difficult owing to lack of expertise and resources. These service providers expressed difficulty in meeting the reporting timelines. The service providers we visited indicated problems in data reporting, including a lack of resources and ministry support, no standardized data collection tools, and not knowing exactly when and how they should report certain types of data for which definitions are not clear, such as wait times. The Ministry indicated that it has now fully documented the data definitions and distributed them to the providers.

Our review of information produced by the systems indicated a number of unusual or unreasonable results that we would have expected the Ministry to have followed up on. For example:

- One service provider reported over 17,000 people waiting for case management services while others reported fewer than 150.
- The cost per service recipient for crisis intervention varied widely between service providers, ranging from $11 to $590,000, while the provincial average was about $280.
- About 100 service providers reported zero or even negative administrative expenses.

These examples indicated that, although service providers are doing a better job of submitting data, the quality of the data and the data's usefulness in decision-making need improvement. The Ontario Health Reporting Standards manual states that "the Ministry will run trend reports and comparative indicators reports and share these with health service representatives to identify data quality issues. Organizations with unusual values will be contacted to determine the source of the variance and correct the data if appropriate." The Ministry/LHIN Accountability Agreement also states that "the Ministry will conduct routine data timeliness and quality checks on data and information as it is submitted by service providers, including contacting service providers on behalf of the LHIN about late reports, missing data, and inconsistent data; measuring the timeliness and quality of data submitted by service providers; and providing reports to the LHIN when there is an issue with data timeliness and quality submissions by service providers."

Although the Ministry has documented the data review process well, it does not review the information received to identify data anomalies or outliers or to assess the reasonableness of the data. At the time of our audit, the Ministry was sending emails to the LHINs and service providers only about missing data and late reports. Our discussions with ministry staff confirmed that they have no formal process to review data quality in the community-mental-health sector. The Ministry told us that data quality review is on the list of outstanding items for the mental-health sector and a plan is to be rolled out by summer 2008. It also intends to produce standard data quality reports for the community-mental-health sector in the 2008/09 fiscal year.

Our review also showed that, unlike the situation in the addiction sector, no client-level information is available in the community-mental-health sector because the CDS-MH only accommodates the secure collection of aggregate data. This means that the Ministry is only able to track the progress of a group of people rather than an individual over time. The Ministry indicated that, in the future, it will need to develop systems infrastructure to support the collection of client-level data to enable it to assess the extent to which the needs of these clients are being met effectively.

We noted that a new tool, the Camberwell Assessment of Need (CAN-C), is being used in certain other jurisdictions to track client-level data and assess the health and social needs of people with mental illness. We were advised that CAN-C was being deployed in 16 pilot sites across the province at the time of our audit. However, the Ministry had made no decision about the appropriate level of system support and whether to fully implement CAN-C province-wide. A decision about province-wide rollout will be made following evaluation of the pilot projects by the end 2008/09.

RECOMMENDATION 6

To better enable it to assess whether the service providers are delivering services in a consistent, equitable, and cost-effective manner, the Ministry of Health and Long-Term Care should:

- **complete implementation of its comprehensive set of performance indicators and select targets or benchmarks that will enable the Ministry and Local Health Integration Networks to properly assess the performance of service providers;**
- **improve information systems to enable them to collect complete, accurate, and useful data**

on which to base management decisions and to help determine if services provided are effective and represent value for money spent; and

- report periodically to the public on the performance indicators for the community-mental-health sector.

MINISTRY RESPONSE

The Ministry continues to work on refinement of performance indicators related to the mental-heath sector. The current Ministry/LHIN Accountability Agreement includes two developmental indicators related to mental-health services. Over time, the Ministry expects that these indicators, and potentially others, will be used to assess the LHINs' performance with respect to mental health.

The LHINs are currently in the process of developing the new accountability mechanisms that will apply to the mental-health sector. The proposed Service Accountability Agreement provides for the LHINs to conduct periodic reviews of the health-service providers.

With respect to improvements to information systems, the Ministry and the LHINs currently have a mutual obligation to identify and discuss data and information gaps, information-management requirements, and data quality issues. Standards relating to the two information systems are documented and posted online for users to access. As well, the submission processes are also fully documented and available online for users to access. The Ministry will improve its data timeliness and quality checks and the LHINs will work with the health-service providers to improve their compliance with these requirements.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

The mental-health sector lacks robust performance measures and, historically, reporting has been inconsistent. The time has come to make a concerted effort within an established time-frame to develop an evidence-based scorecard that is feasible for programs on tight budgets to administer. The Ministry needs to work with content and methodological experts to assure this exercise is complete. This is a precondition if the LHINs are to have the required tools to carry out their mandate.

MONITORING AND ACCOUNTABILITY

Regular monitoring of all community-mental-health services is the basis for program accountability and for continuous quality improvement. In *Making It Happen*, the Ministry "committed to the principle of greater accountability in the reformed mental health system." As Crown corporations, the LHINs are responsible for managing local health system service providers on behalf of the Ministry. It is therefore critical for the Ministry to have appropriate monitoring mechanisms in place. Ultimately, all the system partners—the Ministry, the LHINs, and service providers—are jointly accountable to all Ontarians for meeting the needs of the mentally ill.

Monitoring of LHINs

Under the new organizational structure, the Ministry allocates funding to the LHINs, which in turn assign funding to the service providers. A Memorandum of Understanding and a Ministry/LHIN Accountability Agreement govern the relationship between the Ministry and each LHIN. This agreement includes performance goals and objectives, performance standards, targets and measures, and a plan for spending money. The LHINs enter into contracts called Service Accountability Agreements with all service providers to ensure that there is a mutual understanding of the services to be provided. However, we found specifically that the Ministry required each LHIN to develop an Integrated Health Services Plan (IHSP) for the three-year period from 2007 to 2010. The IHSP is a strategic plan that includes a vision statement, strategies, and specific priorities for the local health system that reflect the health status of the local population and identify areas of focus. However, ministry staff indicated that while the Ministry was not required to approve the IHSPs, they monitored the LHINs' accomplishment of their stated priorities through the Ministry and LHINs' Memorandum of Understanding and Accountability Agreement.

We reviewed the IHSPs and Annual Services Plans (ASPs) of the LHINs we visited and noted a number of critical issues and risks identified in these documents. Examples of such critical issues and risks are the significant wage disparities between the community and institutional sectors, the risk that service volumes will be reduced owing to inadequate increases in base funding, the failure to move the mentally ill from hospitals to a more appropriate level of care, service gaps in supportive housing, and the absence of new funding to support co-ordination and access initiatives.

Monitoring of Service Providers

Service Accountability Agreements

The primary method of holding the service providers accountable is signed service agreements that stipulate reporting requirements and bind service providers to achieve specific, measurable results. The existing agreements between the Ministry and service providers are to continue until the LHINs negotiate new Service Accountability Agreements with their service providers. The Ministry is phasing this in gradually. For the community-mental-health sector, negotiations for the new agreements will take place in the 2008/09 fiscal year, with the agreements coming into effect April 1, 2009. These new agreements are to include performance schedules, which allow the LHINs to measure performance expectations of the service providers. However, at the time of our audit, the LHINs had not yet devised these performance schedules.

Operating Plans

The Ministry also monitored community-mental-health services by reviewing annual operating plans and budgets submitted by the service providers. The operating plans describe community-mental-health programs, goals and objectives, targets and outcomes, human resources, financial initiatives, proposed changes, and new developments. The operating plans are important for the Ministry and the LHINs to understand the operations of service providers and to determine if services are being provided with due regard for efficiency and effectiveness. The operating plans, together with the budgets, specify the projected costs of service delivery and administration. Prior to the transfer of authority to the LHINs, the Ministry reviewed each operating plan and gave final approval once satisfied that the funding is to be used to provide the appropriate services.

We reviewed a sample of 2006/07 operating plans and assessed the Ministry's review of them and noted three issues. First, the operating plans varied significantly in the quantity and quality of supporting information included. About half of the plans did not provide all the information required by the Ministry, and there was no evidence that the Ministry followed up on the missing information. Second, ministry reviewers were not consistent in how they reviewed the plans. Third, the Ministry did not provide feedback in a sufficiently timely manner to enable service providers to rectify any issues identified; it took an average of 103 days for the Ministry to get back to service providers, although we were advised that ongoing discussions did take place between the Ministry and service providers during this time.

In addition, the service providers we visited saw the operating plans as the main vehicle of communication with the Ministry on their operational results and financial pressures. As such, the operating plans are an important means for the Ministry and the LHINs to gain an understanding of and monitor service providers' operations, particularly given the limitations of the performance indicators reported to date. However, as of the 2007/08 fiscal year, service providers were not required to submit operating plans to the Ministry or the LHINs. Eliminating the valuable quantitative and qualitative information that the operating plans provide will hamper the Ministry and LHINs in their ability to monitor and evaluate the performance of service providers and to ensure that clients are receiving effective and high-quality services.

Other Monitoring Issues

We also noted several other deficiencies related to the monitoring of service providers:

- Former regional office staff told us that they monitored program accountability through quarterly financial reports, annual operating plan reviews, and phone discussions. On asking for documentation or evidence of such reviews, the Ministry advised us that, owing to the closing of the regional offices in March 2007, its records of monitoring activities on service providers were not available.
- Although the LHINs are now responsible for monitoring service providers, none of the LHINs we visited had performed any monitoring except for budget review. At the time of our audit, there was no compliance monitoring in the community-mental-health sector. LHIN staff told us that they had limited expertise and resources in the mental-health area to perform the monitoring function.
- According to the Ministry/LHIN Accountability Agreement, in 2007/08 the Ministry and the LHINs were to jointly develop guidelines for the LHINs on conducting audits, inspections, and reviews of service providers to ensure consistency among the LHINs. However, at the time of our audit, these guidelines were not yet available for the community-mental-health sector. Ministry staff indicated that they were still working with the LHINs to develop such guidelines.

Monitoring and Recovering of Funding Surpluses

Service providers are required to report their revenues and expenses by submitting settlement packages each year. A complete settlement package includes audited financial statements, a signed auditor questionnaire, and a variance explanation form. It gives the Ministry assurance over the financial information submitted by the service providers. Similarly, housing providers are required to submit an Annual Information Return (AIR), which reports their financial, operating, and statistical information. Review of the AIRs determines if the funding provided was reasonable, and if the housing providers' spending practices adhered to program requirements.

The Ministry requires that all surpluses or unspent funds be returned to the government at the end of the fiscal year. Although the Ministry has a formal settlement process for collecting surpluses owed by the service providers and housing providers, it has been unable to complete this process on a timely basis. The Ministry has recognized that outstanding settlements are an issue and has made progress in addressing this problem. However, at the time of our audit, there remained a significant backlog of settlements yet to be cleared. Figure 7 shows the proportion of all service providers and housing providers with incomplete settlements from the 2002/03 fiscal year through 2006/07 as of March 2008.

As Figure 7 illustrates, outstanding settlements date back several years and are particularly high for

Figure 7: Incomplete Settlements From Service and Housing Providers, 2002/03–2006/07 (%), as of March 2008

Source of data: Ministry of Health and Long-Term Care

	Community-mental-health Service Providers	Housing Providers
2002/03	1	35
2003/04	4	41
2004/05	5	44
2005/06	12	77
2006/07	74	99

housing providers; in most cases, there have been no settlements made with providers for the last two years. Ministry staff indicated that inadequate staffing was the main reason contributing to the backlogs. We estimated that the Ministry would have recovered at least $13 million if all settlements had been reviewed.

Monitoring of Third-party Contracts

A service provider may act as a distributor of funds for the Ministry to a third party, such as another service provider or external organization that might not have a funding and reporting relationship with the Ministry. This can create a weakness in accountability. We are generally not satisfied that proper accountability measures are in place for monitoring such third-party contracts. Specifically:

- The Ministry was unable to provide a complete list of service providers involved in third-party contracts and the actual amounts provided to them.
- The Ontario Healthcare Reporting Standards manual stipulates that the Ministry will reconcile funding flows to third parties each year to ensure correct reporting of these funds. However, we found that no area of the Ministry was performing these reconciliations.
- Third parties with no direct reporting relationship with the Ministry are required to report financial and operational data to the service provider, which will then report such information to the Ministry for monitoring purposes. However, we found that this was not an established practice. One service provider we visited indicated that it was not aware of this requirement, had not collected financial and operational data from the third parties it funded, and thus had never reported this information to the Ministry on behalf of the third parties. Our review showed that over $1 million flowed annually from this service provider to various third parties.
- The Ministry could not be assured that funds provided by service providers to third parties were spent for the intended purposes. For example, our review showed that one service provider had provided $1.2 million to a third party for community-mental-health services. However, our follow-up research of the third party indicated that its business was confined to substance-abuse services—not community-mental-health services—indicating that the $1.2 million was probably not being spent on the purposes intended.

RECOMMENDATION 7

To ensure that all partners in the community-mental-health sector—the Ministry, the Local Health Integration Networks (LHINs), and the service providers—are accountable to Ontarians for the effectiveness and quality of services, the Ministry should:

- **develop compliance mechanisms to monitor the LHINs' accomplishment of their stated priorities and provide feedback to the LHINs for improvement of their operations; and**
- **review settlement packages on a timely basis to ensure that funding is being spent in accordance with ministry guidelines and that significant funding surpluses are being recovered from service providers.**

The Local Health Integration Networks should:

- develop guidelines together with the Ministry on monitoring service providers, which include requirements to monitor significant third-party contracts and to ensure that community-mental-health funding is being well spent.

MINISTRY RESPONSE

The *Local Health System Integration Act*, the Ministry/LHIN Memorandum of Understanding, and the Ministry/LHIN Accountability Agreement contain a number of requirements related to LHIN accountability. Currently, the LHINs report quarterly to the Ministry and provide an annual report to the Legislature.

The Ministry reviews the LHINs' reports against the above requirements, monitors the LHINs' accomplishments of the performance indicators contained within the agreement, and provides regular feedback to the LHINs on these reports.

With respect to outstanding settlement packages, the Ministry has recovered approximately 50% of the backlog and expects to have all outstanding settlements, up to and including the 2006/07 fiscal year, completed by March 31, 2009.

The LHINs are responsible for managing their local health-service providers including appropriate methods to monitor third-party contracts.

LOCAL HEALTH INTEGRATION NETWORKS' RESPONSE

If the LHINs are to carry out the all-important monitoring and accountability function of their mandate, the necessary tools need to be developed and at hand. The LHINs and the Ministry need to assess the current status, and to determine what is necessary to move ahead.

Chapter 3

Section

3.07

Ministry of the Attorney General

Court Services

Background

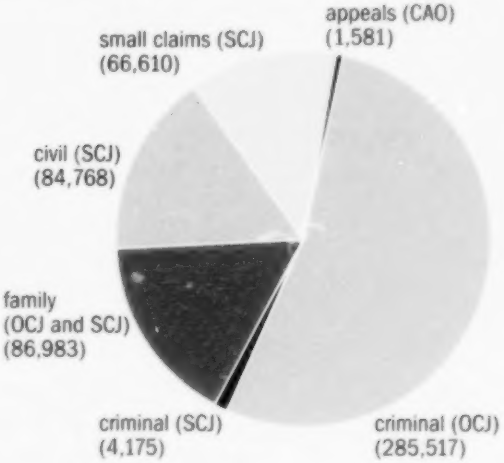
In Ontario, the court system comprises three separate and independent courts of law: the Ontario Court of Justice, the Superior Court of Justice, and the Court of Appeal for Ontario.

The Ontario Court of Justice (OCJ) handles approximately 97% of the 620,000 criminal and criminal youth charges tried annually, including bail hearings, preliminary hearings, and trials. It may also deal with certain family law matters, such as child welfare. The Superior Court of Justice (SCJ) tries more serious criminal cases: family law matters dealing with divorce, division of property, and child welfare; and all civil matters, including small claims. This court may also hear appeals of cases originating in the Ontario Court of Justice. The Court of Appeal for Ontario (CAO) hears appeals from decisions of the Ontario Court of Justice and the Superior Court of Justice. Figure 1 illustrates the caseloads of the courts.

The federal government appoints and remunerates judges in the Superior Court of Justice and the Court of Appeal for Ontario; the province appoints and remunerates judges and justices of the peace in the Ontario Court of Justice. We refer to the judges and the justices of the peace collectively as the Judiciary. As of March 2008, there were about 285 judges and 345 justices of the peace in the OCJ, 300 judges in the SCJ, and 24 judges in the CAO.

Figure 1: Caseloads: Ontario Court of Justice, Superior Court of Justice, and Court of Appeal for Ontario, 2007

Source of data: Ministry of the Attorney General



Justices of the peace work primarily in criminal law matters, including presiding over bail hearings and issuing summonses or search warrants. In addition, collectively, they spend about 45% of their time presiding in municipal courts adjudicating provincial offences, such as those under the *Highway Traffic Act*, and municipal bylaw infractions, such as those under the *Liquor Licence Act*.

The Court Services Division (Division) of the Ministry of the Attorney General (Ministry) supports the operations of the court system through over 225 courthouses and office facilities and 3,000 court support staff. Its primary functions include:

- providing courtroom staff—clerks, interpreters, and court reporters;
- preparing enforcement documentation and enforcing orders, maintaining court records and files, and serving the public and the respective legal counsels;
- providing administrative and support staff and services to the Judiciary, such as trial co-ordination, court statistics, caseflow management, and information technology; and
- collecting fines.

The Division's expenditures for the 2007/08 fiscal year were $405 million: $156 million for operating the offices of the Judiciary and for salaries and benefits for provincially appointed judges and justices of the peace; and $249 million for administrative and court staffing costs and other expenses required to support the operation of courts. In addition, the Ministry spent about $77 million on capital projects to modernize and improve court buildings. Revenues pertaining to court services, primarily from fines and court fees, were approximately $124 million.

Audit Objective and Scope

Our audit objective was to assess whether the Ministry and, where appropriate, the Ministry in conjunction with the Judiciary, had adequate systems and procedures in place to:

- ensure that the Division's resources for courts were managed efficiently; and
- measure and report on the effectiveness of court operations in contributing to a fair and accessible justice system.

The scope of our audit included interviews with ministry officials, as well as examination of files and documentation at the Ministry's head office and visits to three regional offices and nine courthouses. We also considered the recommendations we made regarding court services in our *2003 Annual Report*, our follow-up status report issued in 2005, and recommendations made to the Ministry by the Standing Committee on Public Accounts regarding our 2003 audit.

We also communicated with the Chief Justice of Ontario, on behalf of the Court of Appeal for Ontario; the Chief Justice of the Superior Court of Justice; and the Chief Justice of the Ontario Court of Justice (collectively referred to as Chief Justices). The Chief Justices provided us with helpful comments and gave us their perspectives on the court system and the judicial support services provided by the Ministry.

In addition, we contacted certain stakeholders to discuss their perspectives on court operations. These stakeholders included representatives from municipally administered courts, municipal police services, the Ontario Provincial Police, Crown prosecutors, and Legal Aid Ontario. The audit also benefited from our observations made in a concurrent audit we performed on the Ministry of Community Safety and Correctional Services' Adult Institutional Services, which operate Ontario's adult correctional institutions. We also researched courts operations in other provinces and in several U.S. states for comparison purposes.

Our audit followed the professional standards of the Canadian Institute for Chartered Accountants for assessing value for money and compliance. We set an objective for what we wanted to achieve in the audit and developed audit criteria that covered the key systems, policies, and procedures that should be in place and operating effectively. These criteria were discussed with and agreed to by senior management at the Ministry. We designed and conducted tests and procedures to address our audit objective and criteria.

Over the past several years the Ministry's Internal Audit Division conducted a number of reviews of the Division's operations, including reviews of financial and operational internal controls at several courthouses. The reviews were helpful and of sufficient quality to allow us to reduce the extent of our work in certain areas.

DELAYS IN ACCESS TO INFORMATION

The *Auditor General Act* requires the Auditor General, in the annual report for each year, to report on whether the Auditor received all the information and explanations required to complete the necessary work. Section 10 of the *Auditor General Act* states, in part, "…The Auditor General is entitled to have free access to all books, accounts, financial records, electronic data processing records, reports, files and all other papers, things or property belonging to or used by a ministry."

In 2003, we established a formal protocol with the government regarding the interaction of ministries with our Office. The *Handbook for Interaction with the Office of the Auditor General of Ontario*, prepared by the Ontario Internal Audit Division of the Treasury Board Office, Ministry of Finance, for use by ministries states the following:

> ...information requests should be dealt with expeditiously and documents released in a timely way... In addition, the process agreed upon between Cabinet Office and other Central Agencies, and the Office of the Auditor General of Ontario to record and monitor the timely processing and return of the required information should be followed to ensure that the Auditor General is expeditiously provided with the information they require.

During our audit we experienced significant delays in obtaining key documents from the Ministry. Following our initial requests in December 2007, the Ministry took from three to six months to provide us with several key documents it had used to obtain approval from the Management Board of Cabinet for new capital and program initiatives over the previous five years.

Although the Ministry provided us with other documentation related to these initiatives, delays in obtaining these documents limited our ability to conduct our audit in an efficient manner. For instance, had we received the Ministry's submissions to Cabinet on backlog initiatives within a reasonable time period, we would have planned our work differently while we were in the field. Similarly, key decisions on large capital projects, such as the business case and justification for the projects, were contained in the submissions to Management Board, which were not made available to us during our fieldwork when we were reviewing the related project documentation. We are concerned that this has occurred—especially given that we seldom encounter delays of this extent in obtaining information from other ministries.

Following our audit field work, the Ministry informed us that it would be taking steps to ensure that this does not happen again. Specifically, the Ministry planned to issue a protocol to its senior management team outlining expectations about future co-operation with our Office—including time frames for the collection, review, and approval of required documents in accordance with other established protocols—and setting out the role of the senior management team members to ensure that future document requests are proactively managed.

Summary

In our 1997 and 2003 audits, we reported that serious backlogs in the courts were growing—particularly for criminal cases in the Ontario Court of Justice—and that more successful solutions were needed for eliminating backlogs. Over the last five years, the Ministry has undertaken a number of initiatives, worked collaboratively with the Judiciary, and increased operating funding for courts by almost $100 million—over half of which occurred in the 2007/08 fiscal year. Despite this effort, the backlogs have continued to grow: at the time of our audit, backlogs were at their highest levels in 15 years.

Our more significant observations on backlogs are as follows:

- Over the last five years, in the Ontario Court of Justice, criminal charges pending grew by 17% to over 275,000, the number of charges pending for more than eight months increased 16%, and it took on average 15 more days and almost two more court appearances to dispose of a charge. Backlogs for family cases, including cases relating to child protection, also continued to grow. Although the average number of days to dispose of a civil case has decreased slightly, it still takes on average more than a year and a half.
- The Ministry has undertaken several key initiatives to address criminal case backlogs in certain courthouses, including implementing improvements to Crown prosecutors' handling of cases and adding more resources to adjudicate and prosecute cases. However, these initiatives were not enough to increase the volume of cases disposed of in order to handle the growth in incoming criminal charges over the last five years.
- The Ontario Court of Justice may not have sufficient judicial resources to meet the increased demand for judicial decisions, notwithstanding the fact that court sitting hours have increased by 10% since 2003. To be comparable to other provinces, Ontario would have to hire significantly more judges and justices of the peace, as well as providing additional court facilities and support staff.
- In 2007, it took on average 9.2 court appearances to dispose of a criminal case—an increase of 26% and 56% from the averages of 7.3 and 5.9 appearances in 2002 and 1997, respectively. Despite efforts to improve management information, the Ministry does not yet have adequate information on the reasons for such a significant increase in court appearances. We also noted that the average number of appearances required for setting a date for trial varied from 0.2 appearances in the East Region to 4.7 appearances in the Toronto Region. In addition, the Ministry's new case-management system could not determine if child protection cases met the statutory requirement of being resolved within 120 days or those where a judge had decided to extend the timeline, although we noted that almost one-half took longer than 120 days to resolve.
- We were advised that delays and more frequent court appearances occurred in part because accused persons could not obtain legal representation through Legal Aid Ontario or were delayed in doing so. The number of qualifying low-income defendants approved for legal-representation funding by Legal Aid Ontario has not kept pace with the growth in the volume of cases processed by courts and has actually decreased since 2000/01.

Eliminating backlogs over the long term will require significant improvements to information systems and court practices to help make cases flow through courts more efficiently and expeditiously, thus freeing up judicial and court resources to handle more cases. While the Ministry had made some progress in dealing with issues relating to backlogs that we raised in previous audits, many of our concerns have not been fully addressed. For example:

- In 2003, the Ministry began implementing a new information technology system for case management, scheduling, and reporting of family and civil cases. Although this initiative is progressing slowly, we understand that the Ministry is in the process of planning for a single case-management system and does not as yet have an approved strategy for moving forward. It had not fully evaluated whether viable systems exist in other provinces that could be a more cost-effective solution. The use of video for court appearances—which could significantly reduce costs, particularly for police services, and improve public safety—has not reached desired levels.
- There were significant differences in costs for operating courts in the various regions of the province. For example, the average cost

per court operating hour, excluding judicial salaries, ranged from $302 to $582—a difference of 93%—and it cost up to 43% more in court operating costs to dispose of a case in the Toronto Region. The reason for such variances has not been formally assessed, in part because the Ministry's financial systems does not allow for costs between regions and courthouses to be compared by court activities.

- Some progress has been made in addressing court security, for the Ministry had made or planned to make repairs to two-thirds of the 21 courthouses we sampled that were identified in the last three years as having significant security deficiencies. However, there continues to be no minimum standard for security in court locations applied across the province.

During our current audit, we also noted the following:

- Ontario needs more courtrooms. In 2007, a consultant hired by the Ministry estimated that 98 more courtrooms were needed immediately. Since then, the Ministry had completed, or had approvals to construct, 38 net new courtrooms and had further approvals to build 33 more courtrooms over the next three years.
- The Ministry had adequate processes in place for ensuring that municipalities that operate *Provincial Offences Act* Courts had established the required procedures and met standards for administering courts. However, the Ministry had not appointed a sufficient number of justices of the peace to preside over municipally administered courts. This resulted in court closures and lost revenues for municipalities until late 2007, when additional justices of the peace were made available.
- Although the Ministry's annual report on the operation of the courts was among the most comprehensive of the reports of all the provinces, there are several key results indicators, such as backlog statistics, that should be included.

Following our fieldwork, in June 2008 the Ministry announced for the first time publicly stated targets for reducing the provincial average of days and court appearances needed to complete criminal cases: it aims to reduce these by 30% over the next four years. While the Ministry indicated that additional resources may be required as one of the elements of a successful backlog- and delay-reduction strategy, it advised us that it believes that fundamental changes to the culture of criminal-case processing in Ontario must be achieved before investing additional resources. Clearly, this will require that the Ministry, the Judiciary, and the legal Bar work together, because no one party can effectively address the backlog issue on its own.

Detailed Audit Observations

CASE BACKLOGS AND COURT EFFICIENCY

The success of the judicial system is measured by its ability to resolve disputes in a fair and timely manner. In our previous audits of court services in 1993, 1997, and 2003, we reported that serious backlogs existed and were growing, particularly for criminal cases, and that more successful solutions were needed for eliminating backlogs. Despite several ongoing and new initiatives to reduce backlogs, the situation has largely remained unchanged: the measures put in place to reduce or eliminate backlogs have not been sufficient to reverse the trend. Not only have the backlogs not been reduced—they continue to grow. A major reason for this is that there has been a significant increase in charges laid, which the courts have not been able to keep up with. At the time of our audit, the backlogs were at their highest levels in 15 years.

There are serious ramifications when backlogs in courts are not adequately addressed: the public can develop a perception that the courts are not responsive to its needs; defendants can take advantage of delays to argue that their cases should be withdrawn; and witnesses' memories can fade. Also, long delays caused by backlogs are unfair to accused persons, who deserve to have criminal charges against them resolved within a reasonable time period.

Backlogs and related inefficiencies in court processes also increase the cost to court participants. For instance, as the number of court appearances required to resolve a case increases, costs escalate for the justice system and for defendants. Increased court appearances also put additional demands on local municipal police or the OPP, whose officers may be required to testify in court and/or transport defendants between correctional facilities and courthouses and detain them in custody at courthouses.

Our discussions with five municipal police services confirmed that they experienced additional costs because of backlogs and inefficiencies. Four of the five services estimated that of the total time their officers spent at court because they had been scheduled to testify, 50% to 95% was spent waiting—with the officers often not testifying on the date scheduled. One of the five police services estimated that court inefficiencies cost it approximately $3 million per year in regular and overtime salaries. The Ministry was not able to provide us with any estimates of the cost of court inefficiencies to it, defendants, or other court stakeholders.

Criminal Cases

In 1992, the Supreme Court of Canada provided a guideline of eight to 10 months as a reasonable period of time to allow for cases to go to trial. The Ministry maintains statistics on how many outstanding criminal charges are older than eight months but did not track the number of cases stayed or dismissed for reasons of undue delay. As of March 2008, the Ontario Court of Justice (OCJ), which handles the majority of criminal cases, had over 275,000 criminal charges pending trial—106,000 of which were older than eight months. As Figure 2 shows, the backlog of pending criminal charges continues to grow.

Over the five-year period ending in 2007/08, the total number of pending criminal charges in the Ontario Court of Justice grew by 17%, and the number of criminal charges pending more than eight months increased by 14,500 or 16%. In 2007, the OCJ disposed of 585,000 criminal charges, which took, on average, 205 days each. This was an increase of 15 days, or 8%, from 2002.

Not only did the average number of days to dispose of a case increase, so too did the number of court appearances. In 2007, it took on average 9.2 court appearances to dispose of a case—an increase of 26% and 56% from the averages of 7.3 and 5.9 appearances in 2002 and 1997, respectively. The number of days to dispose of a case and the number of appearances varied significantly across the province—from 176 days and 6.5 appearances in the Northwest region to 250 days and 11.4 appearances in the Toronto region. The greatest pressures on court resources were in larger urban areas, particularly in the Greater Toronto Area. By way of comparison, British Columbia's provincial court disposed of criminal cases in an average of 6.4 appearances and 169 days in 2007.

Figure 2: Ontario Court of Justice—Five-year Summary of Average Age of Criminal Charges Pending, as of March 2004–March 2008

Source of data: Ministry of the Attorney General

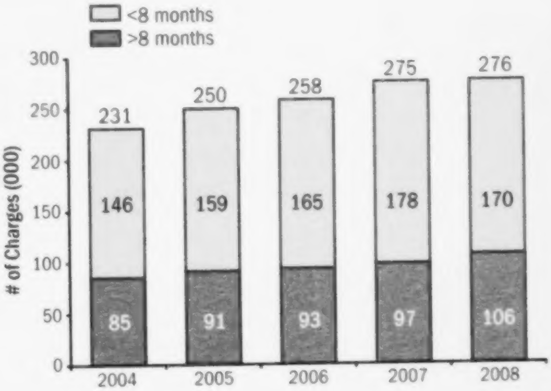


Figure 3 shows that, although there has been an increase in the annual number of criminal charges the OCJ has disposed of, that increase has not helped to reduce the overall backlog because of the generally increasing number of charges received each year.

Frequency of Court Appearances

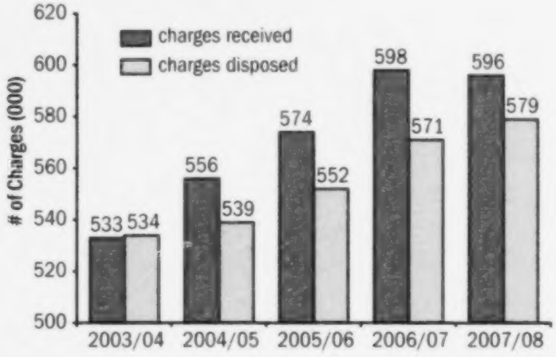
Our discussions with Crown attorneys indicated that, ideally, an accused person should appear before the Judiciary no more than four times before proceeding to trial: first appearance, bail hearing, disclosure request, and the set trial appearance. Moreover, almost 93% of cases are disposed of by the OCJ without a trial and 80% without the need to schedule a trial. The criminal case-management protocol established by the Justice Summit in 2004 notes that if an accused is not prepared to set a trial or preliminary hearing on a third court appearance, the case should be referred from a justice of the peace to a judge so that the reasons for the delay can be dealt with appropriately.

Given that the average number of appearances has been steadily rising—9.2 in 2007, from 5.9 in 1997—it is important for the Ministry to understand the reasons for delays. Since our *2003 Annual Report*, the Ministry has taken steps to collect more information by requiring court clerks to record certain data. However, we found that the information captured was of limited value in identifying the specific factors driving the increase in the number of court appearances prior to trial. For example, the province-wide average of 9.2 appearances was categorized as follows: 3.6 of the appearances were coded as "to be spoken to," 1.9 as "set date for trial," 1.8 as "bail hearing"; and the remainder were coded as "first appearance," "to take a plea," "pre-trial," "trial," "preliminary hearing," and "other events."

The number of appearances coded as "to be spoken to" varied across the province from 2.6 in the West Region to 5.2 in the East Region. We were informed that the code "to be spoken to" could represent any instance when the court ordered a hearing, although the Ministry did not know the reason or the stage at which this event occurred. The number of appearances required to set a date for trial also varied from an average of 0.2 in the East Region to 4.7 in the Toronto Region. The Ministry had not formally assessed the reasons why this number varied so significantly across the province.

Figure 3: Ontario Court of Justice—Five-year Summary of Criminal Charges Received and Disposed, 2003/04-2007/08

Source of data: Ministry of the Attorney General



In 2002, the Division took steps to collect better information about reasons for adjournments in the OCJ. Court staff were asked to use new codes to record reasons for court adjournments, and the party who requested the adjournment, in the Integrated Court Offences Network (ICON) system, the Division's criminal-case tracking system. However, we were informed that after more than five years of implementation, the information was still not recorded either accurately or consistently. The Ministry told us this was because of difficulties endemic to a fast-paced court environment. Our review of a sample of case files also found that the information pertaining to who requested the adjournments could not be determined from the documentation in the majority of cases.

Causes of Criminal Case Backlogs

In addition to the growing volume of cases and the increase in number of days and court appearances needed to dispose of a case, our discussions with the Ministry, the Judiciary, and other stakeholders identified many other factors contributing to the growing backlog of criminal cases. The Chief Justices for the Ontario Court of Justice and the Superior Court of Justice indicated to us that backlogs of criminal cases are a concern and felt that additional judicial appointments were necessary to reduce backlogs. Our findings showed that the problem is particularly serious in the Ontario Court of Justice.

Our observations regarding some of these factors are as follows:

- The Ontario Court of Justice may not have the judicial resources needed to handle its current volume of cases. The number of incoming charges has increased by approximately 9% over the last five years (see Figure 3). The increase is consistent with stated federal, provincial, and municipal government initiatives to increase police resources and to prosecute violent crimes aggressively, such as those associated with guns and gangs. According to the Division, judicial resources for the Ontario Court of Justice were increased between 2003 to 2008 by 24 judges and 73 full-time and part-time justice-of-the-peace positions.

  Several factors may affect the number of judges required to administer any province's justice system efficiently. Our analysis of comparative judicial resources in other provinces indicates that, in order to have judicial resources comparable to other provinces, Ontario would need significantly more judges and justices of the peace, as well as additional courtrooms and court staff to accommodate this increase. Ministry data also show that Ontario judges hear more criminal cases than judges in any other province and that Ontario has significantly fewer judges per capita than other provinces.

  To deal with existing and growing demands for judicial decisions and its courts, the Ministry may have limited solutions: obtain additional funding to allow for greater judicial and court resources (which may not be possible given competing demands from other government programs); work with the Judiciary and court users to streamline court operations to move criminal cases through the courts more efficiently and expeditiously; or a combination of both. Certain other possibilities, such as decreasing the number of incoming cases—which is largely dependent on the number of charges being laid—are not within the Ministry's control.
- The prosecution of criminal cases is increasingly complex. The number of charges laid in each case, the amount and types of evidence presented, and the large number of persons who can be involved in a single crime, all contribute to the number of court appearances and time it takes to complete cases. The Judiciary indicated to us that the inability of the police and the Crown to provide timely disclosure, particularly in response to follow-up or supplementary requests, increases the number of appearances and slows cases down.
- The inability of accused persons to obtain legal representation in a timely manner—or any representation at all—through Legal Aid Ontario can cause delays and more frequent court appearances because the Judiciary may postpone proceedings to allow the accused more time to arrange legal counsel. The Judiciary also advised us that Legal Aid was a key player in expediting criminal charges through the courts. We noted that Legal Aid representatives able to accept applications were located in only nine of the 60 criminal court locations. As Figure 4 shows, since 2000/01, the number of legal aid certificates issued by Legal Aid Ontario to qualifying low-income defendants to pay for their legal representation has not grown, even though there has been a significant increase in the number of charges being laid. In July 2007, the government announced a plan to allocate $51 million over three years in new funding to Legal Aid

Figure 4: New Criminal Charges Received and Legal Aid Certificates Issued, 2000/01-2007/08

Source of data: Ministry of the Attorney General and Legal Aid Ontario

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Change Over 8 Years (%)
new criminal charges received	502,963	524,824	546,547	533,424	556,380	573,646	598,037	595,611	18.4
Legal Aid criminal certificates issued	65,279	63,023	61,074	60,735	61,666	65,510	65,784	64,335	-1.4
% of criminal charges covered by certificates	**13.0**	**12.0**	**11.2**	**11.4**	**11.1**	**11.4**	**11.0**	**10.8**	**-16.8**

Ontario to improve access. In July 2008, an independent review of the legal aid system reported its findings on Legal Aid Ontario's legislation, governance, administration, and service delivery to the Attorney General.

- For criminally accused persons remanded in custody awaiting trial, courts typically give double or sometimes even triple credit for time served in incarceration prior to sentencing. For instance, in addition to earned remission—which gives an inmate a one-third reduction in his or her sentence—a person sentenced to a one-year prison term who had already spent four months incarcerated before being sentenced would likely be released upon sentencing on the basis of the time already served. Stakeholders suggested to us that there are many questionable and unnecessary appearances in courts prior to trial by incarcerated persons in remand that have little value in moving cases forward. Such appearances cause delays, increase court costs, and contribute to backlogs. In some cases where a guilty outcome is considered probable, we were informed that an incentive may exist for the accused to delay the trial and delay pleading guilty to maximize the time in custody while in remand. Our discussions with stakeholders in courts and prisons indicated that the prevalence of the doubling or tripling sentencing credit has grown over the last 10 years. We noted that, although the total number of inmates in Ontario prisons has increased by only about 10% over the last 10 years, the proportion of inmates remanded in custody awaiting trial has increased from 40% to almost 70% during that period.
- Over the last 10 years, there has been greater incarceration of inmates in correctional institutions in areas remote from courthouses, partly because of the expansion of the province's larger "superjails," which are more cost-effective correctional institutions. An unintended consequence has been the increased travel time needed for defence counsel to visit inmates in these more remote facilities. During our audit, we heard anecdotally from various members of the justice community that defence counsel more often arrange for their clients to be brought to court—rather than to appear by means of video technology—because it is more convenient or preferential to counsel to meet clients at a courthouse than to visit them at a more distant institution. Counsel may also take actions that result in more frequent court appearances for their clients, which may cause corrections management to incarcerate the accused in facilities that are closer to the courthouse.

Efforts to Address Criminal Court Backlogs

As Figure 5 shows, over the last five years, total court operating expenditures have increased about 33%, from $302 million to $400 million, with over half of this increase occurring in the 2007/08 fiscal year. We were advised that approximately $35 million of this increase in operating expenditures relates to a one-time expenditure incurred in the 2007/08 fiscal year associated with the retroactive payment for judicial remuneration. In addition to the further resources the increases in operating expenditures allow, we have seen evidence that the Ministry and the Judiciary are working together to address backlogs and to share best practices for improving court procedures.

Following our *2003 Annual Report*, the Standing Committee on Public Accounts recommended that the Ministry measure and report on the effectiveness of its various initiatives for reducing backlogs. We reviewed the status of a number of these initiatives and noted the following:

- In 2003, the Ministry launched the Justice Delay Reduction Initiative (JDRI) to address the 10 courthouses with the most critical backlogs of OCJ criminal cases in Ontario. In addition to $28 million in one-time expenditures for capital improvements to these court facilities, in 2004/05 the Ministry received increased annual funding of about $22 million to hire approximately 115 new court support staff, 15 new judges, 50 Assistant Crown Attorneys, 29 Case Administration Co-ordinators, and nine legal support staff. The JDRI also included a review of all procedures and bottlenecks at each courthouse to identify further efficiencies. At the time of this audit five years later, the Ministry had not yet prepared a formal assessment of the effectiveness of the JDRI. As Figure 6 shows, our assessment noted that from 2003 to 2007, the 10 JDRI court locations collectively disposed of charges at a significantly greater rate than the 50 courts that were not part of the JDRI. However, notwithstanding the progress being made, in 2007 the JDRI court locations were still unable to process the number of incoming charges received. The incoming charges had grown by 15% since 2003, and their backlogs continued to grow, although not nearly as much as in non-JDRI court locations. The JDRI court locations also experienced increases in the number of days it took to dispose of cases and the number of appearances needed to dispose of a case. The increase in the latter was greater than it was for non-JDRI court locations.
- In February 2002, the Ministry initiated a pilot project called Vertical File Management at the Kitchener courthouse to improve the way in which Crown prosecution files were managed, with the expectation that court efficiencies would be achieved by reduced

Figure 5: Summary of Annual Operating Costs for Court Services, 2002/03–2007/08

Source of data: Public Accounts

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	5-year Increase (%)
court operating costs ($ million)	194.9	202.1	210.0	217.2	226.9	243.6	25.0
judicial support and remuneration for provincially appointed Judiciary ($ million)	106.8	98.2	130.7	116.0	119.9	156.2	46.3
Total Operating Costs (Excluding Bad Debt Expense) ($ million)	**301.7**	**300.3**	**340.7**	**333.2**	**346.8**	**399.8**	**32.5**
change from previous year ($ million)	**10.8**	**-1.4**	**40.4**	**-7.5**	**13.6**	**53.0**	
change from previous year (%)	**3.7**	**-0.5**	**13.5**	**-2.2**	**4.1**	**15.3**	

Figure 6: Results of Justice Delay Reduction Initiative (JDRI)

Source of data: Ministry of the Attorney General

	Combined Results of 10 JDRI Court Locations				50 Non-JDRI Court Locations
	2005 (pre-JDRI)	2007	Increase (#)	Increase (%)	Increase (%)
charges received	217,657	250,966	33,309	15.3	8.5
charges disposed	214,133	245,261	31,128	14.5	4.7
increase in backlog of annual charges pending	3,524	5,705	2,181	61.9	474.0
average number of days to disposition	207.9	210.7	2.8	1.3	4.9
average number of appearances to disposition	7.8	9.6	1.9	24.1	17.0

appearances, reduced case disposition times, and stronger cases being brought to trial. At the time of our audit, the Ministry had not conducted a formal review of this pilot, which was still in progress. However, our own assessment using information available to date found that, from 2001/02 to 2007/08, the average number of days taken to dispose of a case decreased from 160 to 138, and the trial collapse rate—or the number of charges disposed of on the trial date without a trial—decreased from 12% to 7%. Despite these improvements, the average number of court appearances increased from 6.2 to 8.2. In addition, the Kitchener courthouse was one of the 10 included in the JDRI. It could not be determined to what extent the JDRI contributed to the improvement at the Kitchener courthouse. At the time of our audit, the Ministry had established plans to extend this prosecution-file-management initiative to 17 large and medium-sized Crown offices by the end of 2008.

- In November 2005, the Ministry obtained funding approval for $23.7 million to implement the Upfront Justice Project from May 2006 to March 2008 at certain courthouses. The project consisted of several separate but interrelated projects for reducing delays at the earlier stages of cases moving through the courts. These projects included establishing a Bail and Early Justice Team to intervene in in-custody cases to ensure more productive court appearances and prevent unnecessary adjournments; a Community Justice Initiative to improve diversion programs as alternatives to processing cases through the courts; and measures to improve the quality of Crown briefs and disclosures. The Ministry also hired a consultant to evaluate the programs during the period. In a November 2007 status report—the latest available at the time of our audit—the consultant noted several positive results, such as increased caseload clearance rates, a reduced number of adjournments, increased percentages of guilty pleas before trial, more referrals to the diversion programs, and improvements to Crown briefs.
- Over the last five years, the Ministry has spent about $5.3 million in total to fund "blitz courts"—that is, courts that are provided with additional or reallocated judicial and Crown resources for up to six months to help reduce the backlogs. The Ministry has used such blitz courts for courthouses with serious criminal backlogs. However, our discussions with the Ministry and the Judiciary noted that blitz courts typically only offer short-term relief to the courthouse, and backlogs increase when the additional resources are removed.

In our *2003 Annual Report*, we also recommended that the Ministry establish realistic targets and timetables for eliminating backlogs. After we completed our fieldwork in our current audit, the Ministry announced in June 2008 the Justice on Target strategy, which, for the first time, sets public targets for reducing by 30% over the next four years the provincial average of days and court appearances needed to complete a case. Two initiatives were announced at that time to help accomplish these goals: improved access to Legal Aid support and changes to the manner in which Crown prosecutors manage cases. The Ministry indicated that it plans to announce other initiatives in the future.

Family Cases

In general, the Ontario Court of Justice hears family cases involving child protection as well as custody, access, support, and adoption, which fall under provincial jurisdiction, while the Superior Court of Justice deals with cases involving divorce or property claims. In 17 court locations, a Unified Family Court exists where all family cases are dealt with by the Superior Court of Justice. Child protection cases are governed by statutory time limitations for court appearances and hearings: in most circumstances, it is deemed to be in the child's interest for the case to be resolved within 120 days unless otherwise determined by the courts. In the 2007/08 fiscal year, both courts received a total of about 86,000 family proceedings, including 12,000, or 14%, for child protection cases.

For family cases and civil cases, the Ministry has recently started to capture additional statistics on case status using its case-tracking information system, which it calls "FRANK." FRANK was introduced to courthouses over a six-year period, with the process to be completed in fall 2008. At the time of our audit, the Ministry informed us that it was performing a quality-assurance review of the information in FRANK to ensure that it was accurate and reliable. However, on the basis of information available from FRANK, we noted that backlogs existed in resolving family cases, including child protection cases. For instance, of the 11,400 child protection cases disposed of from March 2007 to February 2008, about 47% took over 120 days, and the number of cases pending over 120 days increased by 38% from 4,700 in March 2006 to 6,500 in February 2008.

The *Family Law Rules* of the Courts provide that child protection hearings should be completed within 120 days of the start of the case, subject to the best interests of the child. The time period may be extended by the judge for dealing with the child's family circumstances and establishing a permanent plan for the child's care and upbringing. We noted that FRANK could not differentiate between cases that have exceeded statutory time limits, such as the requirement for a hearing within 120 days, and cases that courts had authorized to exceed these limits. This information would be useful for assessing the extent of backlogs. The Ministry acknowledged that serious backlogs had arisen with respect to child protection cases and noted that government funding for children's aid societies had increased in recent years, which had led to a significant increase in child protection cases before the courts.

In 2005, six additional family law judges were appointed to the OCJ, and in July 2008, the federal government committed to add eight more SCJ judges, six of which will be assigned to family cases. Nevertheless, expenditures on judicial and court resources have not been keeping pace with the increase in child protection cases being brought before the courts.

We also noted growing backlogs for non-child-protection family cases. The number of cases pending over 200 days increased by 26% from 70,800 in March 2006 to 88,900 in February 2008.

The Chief Justice of the Superior Court of Justice provided us with these comments on the family proceedings: "Overall, the problem of backlog has remained static. However, in some specific areas of the court's business, and in some geographic locations, there have been acute challenges with respect to backlogs, particularly in civil and family proceedings. Within family proceedings, child protection matters have been identified as a top priority of the court and continue to be an area of concern.”

The Chief Justice of the Ontario Court of Justice informed us that “reducing delays in child protection cases has been and will remain a major focus for the Court. The Ontario Court of Justice works closely with the Ministry of the Attorney General, the Ministry of Children and Youth Services, and justice partners on the child protection backlog through the Justice Summit and its Family Courts Steering Committee. Since the increase in the family judicial complement in 2005, the family law backlog has improved somewhat, especially in child protection matters.”

We did note that there have been several initiatives to improve the processing of child protection and family cases. These include the development of a child protection best-practices protocol and the establishment of working groups and committees as a result of the 2002 Justice Summit, and the investigation of the causes of backlogs at specific sites.

Civil Cases

The civil courts receive about 85,000 new proceedings annually, of which about 6,000 proceed to trial and the remaining are disposed of without the need for a trial, as a result of decisions by the parties involved, pre-trial mediation, or applying court procedural rules. The Ministry tracks the time it takes to dispose of almost 50,000 of these cases that have had activity after the initial filing. We noted that the Ministry has made some progress in dealing with civil cases. For example, from March 2006 to February 2008, the percentage of cases pending trial over 12 months decreased by 41%. However, civil cases continued to take lengthy periods of time to be disposed of. It took an average of 581 days to dispose of a civil case during the 2007/08 fiscal year, and as of February 2008, there were 6,670 civil cases awaiting trial for an average of 359 days.

The Ministry has undertaken a Civil Justice Reform Project to provide recommendations to make the civil justice system speedier, more streamlined, and more efficient. The project released a report in November 2007 with over 80 recommendations that the Ministry, the Judiciary, and other stakeholders are addressing.

RECOMMENDATION 1

The Ministry of the Attorney General should work with the Judiciary and other stakeholders to develop more successful and sustainable solutions for eliminating backlogs in criminal, family, and civil courts, including:

- **creating better tools to identify the sources and specific reasons for delays and more frequent court appearances so that action can be taken to address potential problems in a more timely manner;**
- **assessing the resource implications of actions taken and decisions reached by the different parties to a trial so that resources allocated to courts can handle the increased caseloads; and**
- **establishing realistic targets and timetables for eliminating the current backlogs.**

In addition, the Ministry should assess the impact, both quantitatively and qualitatively, that backlogs have on the courts, stakeholders, and the public and use this information to establish benchmarks for measuring improvements.

MINISTRY RESPONSE

The Ministry will continue to identify and address the need for enhanced management information, including collecting high-quality, meaningful adjournment data. Where possible, the Ministry will collect data to assist in assessing the resource implications of actions taken and decisions reached by the different parties to a trial so that resources allocated to courts can handle the increased caseloads.

The Ministry recognizes the adverse effects of the backlog of criminal cases in the courts on the public and other justice system participants.

The Ministry has therefore developed the Justice on Target Strategy, which is the first-ever results-based approach to criminal justice processes in Ontario. The Attorney General has set a target of achieving in four years 30% reductions in the provincial average of days and court appearances needed to complete a criminal case. As part of this strategy, the Ministry is working with the Judiciary and all other justice system participants to identify practices and processes that inhibit the effective functioning of our criminal courts and to develop solutions that will enable us to meet the targets. Once effective case-processing practices are in place, the Ministry will be able to accurately assess its resource needs.

It is important to note that most charges that have been before the courts for eight months or longer are not at risk of being stayed or dismissed for reasons of delay. The Supreme Court of Canada has stated that there must be an unreasonable delay, and the delay must be attributable to the Crown. Very few cases are stayed or dismissed for reasons of undue delay.

With respect to family and civil cases, the Ministry will continue to work with the Judiciary and justice partners to identify the reasons for delay, particularly in child protection cases, and move forward with the recommendations of the 2007 Civil Justice Reform Project to minimize delay in the civil justice system.

ADMINISTRATIVE STRUCTURE OF THE COURTS

In both our 1997 and 2003 Annual Reports, we recommended that the Ministry and the Judiciary establish greater co-operation and address some longstanding concerns related to the administration of the courts. We noted that improved administrative and management procedures were necessary for greater accountability and to deal with serious issues, most notably case backlogs. In our current audit, we were pleased to note that both the Ministry and the Judiciary have made significant efforts to clarify their respective roles and responsibilities, and to consult each other and co-operate on all key administrative decisions. Notwithstanding this improved co-operation, there continue to be several areas where little or no progress has been made, including case backlogs, information technology, and court security. We discuss these issues in other sections of this report.

The relationship between the Ministry and the Judiciary is complex. The Judiciary is independent of the administrative and legislative arms of the government. As part of its adjudication function, the Judiciary has sole responsibility for the conduct of proceedings within its courtrooms. It directs the operation of courts, including determining the dates of court sittings, scheduling cases, and assigning courtrooms, cases, and duties to individual judges. While the Judiciary controls the use of court resources, the Ministry makes key decisions affecting the administration of the courts, such as court budgets, staffing decisions, courthouse capital projects, and the number of provincially appointed judges and justices of the peace.

It has long been acknowledged that this division of responsibilities can only be successful if there is a clearly defined accountability structure and a clear division of authority and responsibility between the Judiciary and the Ministry. This division of authority may mean that, in some instances, the Judiciary's involvement in areas of ministry responsibility is limited to simply being apprised of ongoing operations. In other instances, where the Judiciary considers it appropriate, it may consult directly with the Ministry.

Since our *2003 Annual Report*, the Ministry and the Judiciary have improved co-operation and better defined their respective roles and responsibilities in various ways:

- Representatives of the Ministry, Judiciary, Bar, and other justice partners and stakeholders have attended a "Justice Summit" held annually since 2002. These summits make possible an improved discussion of key issues affecting the courts and have established several working groups and joint committees to respond to identified concerns. Outcomes of these efforts include the implementation in 2004 of a criminal case-management protocol and the identification of best practices for processing child protection cases.

- In 2004, the Attorney General and the Chief Justice of the Ontario Court of Justice signed a renewed Memorandum of Understanding (MOU) setting out and clarifying the financial and administrative authorities and responsibilities of both parties in delivering court services. In May 2008, for the first time, an MOU was established between the Attorney General and the Chief Justice of the Superior Court of Justice.
- Both the Ministry's Court Service Division (Division) and the Ontario Court of Justice have commenced issuing annual reports, albeit somewhat tardily—at the time of our audit, the most recent reports were for the fiscal year ending March 31, 2005, and December 31, 2005, respectively. These reports act to further clarify the parties' roles and responsibilities and to identify issues affecting court administration and the accomplishments achieved in delivering court services more effectively.
- In 2006, the government made several amendments to the *Courts of Justice Act*, which governs the structure and administration of the courts. The amendments specify goals for the administration of the courts, clarify ministry and judiciary roles and responsibilities, legally recognize the MOUs between the Ministry and the Judiciary, and require the Ministry to publish an annual report on court administration.

During our audit, the Chief Justices indicated to us that they believe progress has been made in relationship building with the Ministry. The courts also shared with us specific concerns about issues pertaining to staffing, security, and facilities that the Ministry will need to address. For instance, the Court of Appeal advised us in written correspondence, "The CAO is, and has been, generally satisfied with the administration of the courts in Ontario. The services provided by the Court Services Division are meeting the needs of the judiciary within the Court of Appeal for Ontario."

Similarly, the Chief Justice of the Superior Court of Ontario stated:

> Many of the judicial efficiencies identified and developed in the last few years have resulted from the Auditor General's 2003 identification of continued ambiguity as between the respective roles and responsibilities of the judicial and executive branch of government. To address these ambiguities, the Office of the Chief Justice of the Superior Court and the Ministry of the Attorney General have worked collaboratively to develop an appropriate legislative framework, through amendments to the *Courts of Justice Act*, to approach the development of a common appreciation of the respective roles of each branch of government and, ultimately, to conclude a comprehensive Memorandum of Understanding between the Chief Justice of the Superior Court and Ontario's Attorney General, the first of its kind in breadth and scope in Canada.

The Ontario Court of Justice, which has had an MOU in place with the Ministry since 1993, also noted, "The MOU has resulted in a very significant improvement in the understanding between the Court and the Ministry of the complex relationship and responsibilities for administration. Further improvements to the MOU would be in the area of financial support for the library and IT, and a formal recognition of the court's ownership of its own statistical data."

However, the OCJ also cited several areas where the Ministry's support services were not meeting the needs of the court, such as insufficient support staff in courtrooms and for justices of the peace, and gaps in service to the public in Ontario family courts—which require increasing the complement of judges and facilities to accommodate them.

RECOMMENDATION 2

To help ensure that the courts function effectively and to improve the stewardship of funds provided to the courts, the Ministry of the Attorney General and the Judiciary should maximize the benefits from their improved relationship to enhance their administrative and management procedures by establishing:

- a process whereby they regularly assess the administrative structure of the courts and the Ministry/Judiciary relationship against desired outcomes; and
- realistic goals, plans, and timetables for the timely and effective resolution of issues related to court operations, such as the reduction of case backlogs and improvements to technology, information systems, and security in courts.

MINISTRY RESPONSE

The Ministry's Court Services Division has memoranda of understanding with the Ontario Court of Justice and the Superior Court of Justice. These support continuing dialogue to ensure maximum co-operation in court administration while protecting the independence of the Judiciary. Division staff meet regularly with representatives of the Judiciary—both with the offices of the Chief Justices and at the local level—to identify and address new needs and priorities. The Division's Five-year Plan, which is part of its published annual report, sets out goals, plans, and timetables to address priority needs identified by the Ministry and the Judiciary.

The Justice on Target Strategy is a good example of the Ministry and the Judiciary working together to achieve concrete goals for effective court operations. The initiative is co-led by a judge of the Superior Court of Justice and the Ministry's Criminal Law Division. We will continue to consult with the Judiciary, through the Justice on Target initiative, to find ways to improve court operations and reduce backlogs.

INFORMATION SYSTEMS AND THE USE OF NEW TECHNOLOGIES

The Division uses two main computerized systems to provide information to the Judiciary and Crown attorneys and for tracking cases in courts.

The Integrated Court Offences Network (ICON), which has been in use since 1989, is an on-line mainframe system that accumulates information on all criminal cases. It maintains case data and produces court-docket and monthly statistical reports. ICON also tracks all offences, fines imposed, and payments made.

In 2003, the Ministry began implementing in stages a new information technology system—called "FRANK"—for case management, scheduling, and reporting of family and civil cases. FRANK replaced several manual and stand-alone computer systems in use at various court locations. We were informed that, owing to unexpected complexities, full implementation took three years longer than expected. The last courthouse is scheduled to be converted in fall 2008. FRANK also handles the case management of about 75% of the criminal proceedings in the Superior Court of Justice.

In 1996, the Ministry, along with other ministries and a consortium of private-sector partners, initiated the Integrated Justice Project (IJP), which was created with the intention of providing courts with new information systems that were integrated with other justice sector partners, such as the Crown, police, and correctional services. The goal was to achieve a more modern, effective, and accessible administration of justice. However, because of significant cost increases and delays, the IJP was terminated in 2002.

As a result of the failure of the IJP, the Ministry's stated approach since 2002 to implementing new information technology in courts in the mid-term has been to move forward in modest, incremental steps to maintain and upgrade existing case-management systems. Over the longer term, the Ministry plans to link the civil and family case-management systems and the criminal case-management systems in a single case-management system.

We noted that, since our *2003 Annual Report*, there has been little progress in implementing new technologies to improve the efficiency of the courts, especially for handling criminal cases. The following sections discuss the Ministry's recent efforts to introduce information systems and new technologies.

Single Case-management System

In October 2004, the Ministry obtained approval from Management Board of Cabinet (MBC) to undertake the work required for critical support, maintenance, and essential upgrades to ICON and FRANK in order to support case processing and to position both systems favourably for future linkage with and planned integration into a Single Case-Management System (SCMS). The Ministry is at the detailed planning stage for the SCMS. The Ministry spent approximately $3 million annually from 2004/05 to 2007/08 to perform critical support, maintenance, and essential upgrades to ICON and FRANK, as directed by MBC in October 2004.

In 2007, the Division conducted a needs assessment and research study to review and assess the technologies available to support the development of the SCMS. At the time of our audit, the report of the results of the needs assessment was still in draft stage, and the Division was in the process of preparing a business case outlining the project goals, approach, and estimated cost. The Ministry told us that it expected to present a formal submission to Cabinet by the end of 2008 and that, if it is approved, the targeted date for a new SCMS common platform is 2009/10.

We noted that in 2001 British Columbia fully implemented a single integrated case-management system called JUSTIN at a total cost of about $15 million. JUSTIN includes police reports to Crown counsel, police scheduling, Crown case assessment and approval, Crown victim and witness notifications, court scheduling, and judicial trial scheduling. The system is integrated, meaning that information about a case is entered only once and various justice stakeholders reuse the information as the case moves from initiation through to disposition. As was the intent of Ontario's IJP, the reuse of data throughout the system helps reduce staff time in recording and processing cases and minimizes the possibility of errors due to the re-entry of data. JUSTIN is also integrated with computer applications related to civil and family cases. In February 2008, the province of Quebec agreed to purchase British Columbia's suite of criminal and civil justice applications, which it plans to implement in its jurisdiction.

The Ministry told us that it had informally looked into JUSTIN as a possible platform for establishing the SMCS in Ontario but had decided not to pursue this option mainly because the workflow in the B.C. justice system was different than in Ontario and that the potential cost might be greater than the current incremental approach. However, the Ministry was unable to provide us with a formal documented assessment of the B.C. system and its lack of applicability to Ontario.

Computers in Courtrooms

There would be substantial efficiencies and savings if Ontario's courts used a paperless, electronic document system. The volume of cases court staff handle each year require them to manage a large number of documents, yet to date, transactions have generally been processed manually and have been paper-based. This requires significant clerical effort to schedule, enter, file, and track court proceedings and transactions. At the three regions we visited, we were informed that over three-quarters of their courthouses have used computers in at least one courtroom for administrative tasks, such as creating or updating information in either ICON or FRANK during court time. However, the use of computers in courtrooms is not common practice across the province: data entry and form processing are done outside of the courtroom. We noted that in order to expand the use of computers in courtrooms, the Ministry would need to deal with technical limitations in some courtrooms, changes to court clerk procedures and responsibilities, and, possibly, stakeholder resistance to changes to existing court processes and documentation requirements.

Electronic Document Filing

Until the SCMS is developed, there would be little benefit to the Ministry to have the public file certain court forms electronically because its existing systems could not process them. In 2004, the Ministry discontinued its pilot project on electronic document filing because its outdated equipment was prone to failure, its system lacked capacity, the forms were complex, and the necessary investment was deemed too large.

We noted that in British Columbia, the legislative rules facilitating e-filing came into effect in July 2005. Since then, B.C. has been offering electronic filing in seven of its courthouses and intends to introduce it incrementally across the province. B.C.'s electronic filing project has enabled law firms, registry agents, and self-represented litigants to submit documents electronically. In addition, the Ministry's own research indicates that electronic filing has been widely adopted in various jurisdictions in the United States, Europe, and southeast Asia. For example, in U.S. federal and state courts that have the capacity to accept e-filing, 40% to 90% of documents are filed electronically.

Digital Audio Recording

Transcripts of court proceedings have traditionally been prepared manually by court reporters attending court, and audio recordings made with low-quality analogue recording devices. In recent years, the development of digital audio equipment allows for the efficient and high-quality recording of court dialogue, thus reducing court reporter costs. Alberta and British Columbia converted their courts to digital audio systems in 2001/02 and 2006/07, respectively. In Ontario, owing to technical and quality issues, the Ministry discontinued in 2004/05 a pilot project inherited from the former IJP that cost over $17 million.

In June 2007, the Ministry entered into a new vendor agreement to test digital recording devices at six court locations. In July 2007, the Ministry conducted an evaluation of the pilot project and decided to retain the same vendor to introduce the digital recording devices in Ontario courts incrementally. As of March 2008, a total of 16 courthouses had successfully converted their recording systems from analogue to digital at a cost of $750,000. The Ministry informed us that the conversion of the remaining 146 courthouses will be completed in the next two to three years. However, at the time of our audit, the Ministry had not established a formal plan specifying the scope and operational targets of the implementation, including cost projections, management approval, and plans to address computer compatibility and other technical issues.

Video Court Appearances

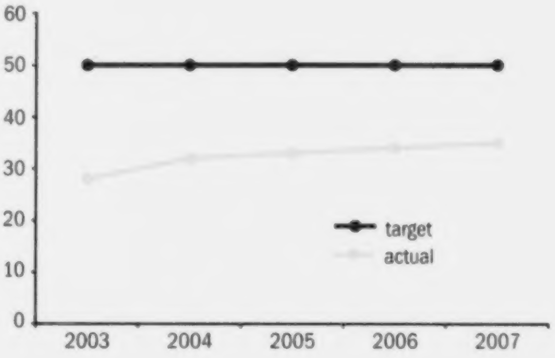
In our *2003 Annual Report*, we noted that the courts were starting to make good use of new video technology, which allows an accused person to appear in a courtroom by video conferencing from a correctional institution or police station. Most criminal court appearances are for preliminary or remand hearings, which may take a few minutes to complete, and after which the accused person is remanded or returned to custody to await trial. Using video technology eliminates the need and, therefore, the cost of transporting a prisoner to and from court. Since 2003, the number of locations in courts, correctional facilities, police stations, and legal aid offices with video technology has more than doubled to approximately 230. In addition, video technology has been used in other areas, such as for remote witness testimonies and high-security trials. However, on the basis of the information discussed below, we concluded that video technology in courtrooms is underutilized and that expansion of its use would have significant benefits.

In 2003, the Ministry set a target that video be used in 50% of all in-custody court appearances. The Ministry has not reached this target, and, as Figure 7 shows, growth in use of video technology has been slow and has essentially levelled off at 35%. In 2007, the Ministry retained an independent consultant to conduct a program review of the use of video technology in the justice sector. The review reported that a plateau in use had been reached as a result of a lack of appropriate funding, the absence of a supportive and accountable governance model, and a lack of strategic direction and planning with court stakeholders. The *Criminal Code* of Canada permits accused persons to appear by video in specific circumstances where ordered by the judiciary. Ontario courts have no requirement to increase the use of video equipment for court appearances, and, in some cases, consent of the Crown and defence is required. As previously stated in this report, we were informed that another major factor limiting video use was defence counsels' preference to have inmates brought to the courts for meetings instead of counsel going to the prisons to meet clients.

The consultant's report further estimated that if video usage for in-custody appearances in the 2006/07 fiscal year had met the 50% target, the justice sector would save about $10 million annually. By reducing the number of prisoners transported between courts and correctional facilities, there would be fewer court delays owing to traffic, more effective use of the police resources that are assigned to transporting prisoners, improved safety to the public, and better access to justice, especially in remote areas.

Figure 7: Video Appearances as Percentage of Total In-custody Appearances, 2003–2007 (%)

Sources of data: Ministry of the Attorney General and Ministry of Community Safety and Correctional Services



The consultant's savings estimate may be understated. In a February 2008 study on court services provided by the Toronto Police Service—which provides and pays for court security and prisoner transportation for Toronto courts at an annual cost of about $44 million—the Auditor General of the City of Toronto estimated that savings of $5 million in Toronto alone would occur if the use of video technology increased to 40% from about 21% in 2006. At the correctional institutions we visited, we found that the greater use of video appearances would reduce their staffing requirements by having fewer prisoners discharged and admitted. Moreover, we were advised that it would reduce the opportunities for prisoners to bring contraband into the prisons.

Our research noted that greater use of video technology is possible and would be cost-effective with proper protocols that made such court appearances meaningful. For example, our research noted that Alberta uses video for more types of in-court appearances by accused persons in custody than Ontario. Alberta has a judicial requirement for the mandatory use of video technology for several types of pre-trial appearances, unless the accused has a justifiable reason for video technology not to be used. Moreover, the percentage of in-custody pre-trial video court appearances achieved within the last year in the Edmonton and Calgary correctional centres was 65% and 80%, respectively. This was significantly higher than the average usage rate in Toronto.

We also noted that a Memorandum of Understanding for the original Video Remand Project between the Ministry and the then Ministry of Public Safety and Security covering the project scope and the parties' roles and responsibilities expired in March 2003 and has not been renewed.

RECOMMENDATION 3

To modernize court operations, achieve cost savings and efficiencies for courts administration and other stakeholders—such as police and correctional services—and improve public safety, the Ministry of the Attorney General should expedite its efforts and establish plans and timetables to introduce various proven technologies and to upgrade information systems. In particular, it should:

- ensure that its analysis of the applicable technologies utilized in other provinces is sufficiently thorough; and
- use video technology for in-court appearances unless the accused can make a valid argument for the necessity of an in-person appearance.

MINISTRY RESPONSE

The Ministry will continue to work with the Judiciary and its partners to enhance the effectiveness of the justice system through the use of technology. Through our active membership in the Canadian Centre for Court Technology and the Information Technology Committee of the Association of Canadian Court Administrators, we will continue to assess technologies available in other Canadian and U.S. jurisdictions and identify opportunities to import and adapt that technology to meet Ontario's needs.

While the Ministry recognizes the importance of exploring the maximum productive use of video technology, processes must be in place to ensure that video appearances contribute to effective case processing. To that end, the Ministry will continue to work with the Judiciary on the effective use of videoconferencing in Ontario's courts.

FINANCIAL INFORMATION

Appropriate and reliable financial information is needed to properly assess accountability for expenditures and to help determine whether court services are provided economically and efficiently.

In both our *1997* and *2003 Annual Reports*, we reported that the Ministry had made little effort to assess its costs, other than to compile information on actual expenditures compared with budgeted expenditures by region and court location. We also noted that it lacked regular management-reporting systems that would allow management to monitor how cost-effectively court services were being delivered. In our current audit, we still found that minimal operating-cost information is available.

Specifically, the Ministry's financial systems did not allow for comparing costs between regions and courthouses by court activities, such as by the type of court (civil, family, criminal) and by key activities, such as judicial support and case tracking. In our *2003 Annual Report*, we noted that in January 2002, the Ministry made preliminary attempts to compare court activities and costs by region and with other provinces. However, since then, it has made no further attempts to benchmark its costs. In addition, contrary to information we received in our 2005 follow-up of action that the Ministry had taken to address our 2003 recommendations, the Division has not followed through with its intention of using what was—in October 2004—its new Integrated Financial Information System (IFIS) to record and report on costs by practice areas by the 2006/07 fiscal year.

However, we did note that, several years ago, the Division did start to monitor budget allocations for operating courts—excluding judicial salaries—among regions on the basis of two overall workload factors: the number of new proceedings received and court operating hours. This has since led to the Ministry's making two budget reallocations between regions. However, there continue to be fairly large differences between regions. For instance, as Figure 8 illustrates, our calculation of the average total court operating cost by region of disposing of a case in 2006/07 ranged from a low of $389 in the East Region to a high of $558 in the Toronto Region—a difference of 43%. As Figure 9 shows, we also calculate that the average hourly operating cost per court by region varied from $302 in one region to $582 in another—a difference of 93%. The Ministry informed us that it is substantially more expensive to operate certain courts in remote areas, but it had not formally analyzed or explained the variances.

Figure 8: Average Total Court Operating Cost per Case Disposed of (excluding Judicial Salaries), by Region, 2006/07 ($)

Source of data: Ministry of the Attorney General

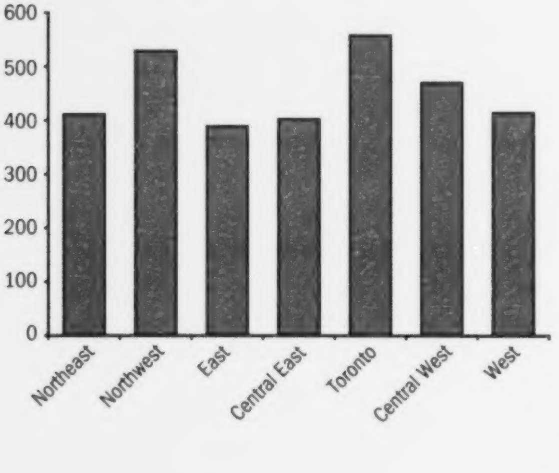
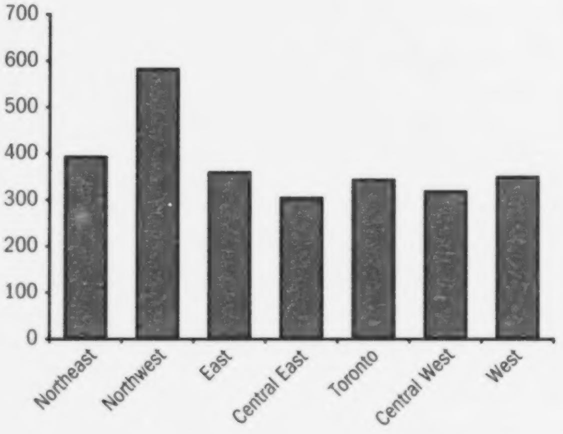


Figure 9: Average Hourly Operating Cost per Court (excluding Judicial Salaries), by Region, 2006/07 ($)

Source of data: Ministry of the Attorney General



RECOMMENDATION 4

In order to manage court financial resources effectively, the Ministry of the Attorney General should:

- identify and collect information needed from its court operations and other provinces to allow for comparing and assessing the costs of delivering court services in the various regions in the province;
- establish benchmarks for appropriate costs for delivering court operations; and
- use the information gathered to ensure that financial resources are allocated to its courts on the basis of their relative needs.

MINISTRY RESPONSE

The Ministry's Court Services Division has successfully managed annual divisional costs within the approved allocation through monitoring of monthly expenditures.

Comparisons of year-over-year and region-to-region expenditures are conducted when determining new funding for salary awards, one-time funding requirements linked to workload pressures, and the realignment of funding between regions.

The Division recognizes the need to collect better information that will allow for comparing and assessing the costs of delivering court services in the various regions in the province. This work, which is now under way, will require a significant change in the way that salaries and wages are tracked at each court location. Once cost reporting has been overhauled, benchmarks will be established for appropriate costs for delivering the various court operations in Ontario as well as for comparison of similar court operating costs in other provinces.

CAPITAL PROJECTS

Over the past five years, the Ministry spent about $116 million on major capital projects, of which two-thirds was spent in the 2007/08 fiscal year.

In our *2003 Annual Report*, we noted that controls over planning, contractor selection, and project management for capital projects were inadequate. In our 2005 follow-up report, we noted that the Ministry, in conjunction with the Ontario Reality Corporation (ORC)—its mandatory service provider for construction and management of capital projects—had made a number of improvements to its procedures, staff training, and reporting processes on capital projects to help ensure that projects are adequately planned and managed. During our current audit, we confirmed with ministry staff and by testing certain projects that these new controls were still in place.

At the time of our audit, the Ministry's Facility Management Branch was continuing its work with the ORC to develop an asset management plan to help better manage court facilities, such as by identifying facility needs and establishing long-term strategic plans and priorities. The Ministry informed us that it expects the plan to be completed in about two years.

Need for Additional Courtrooms

The need for more courtrooms is particularly serious in the Ontario Court for Justice, which has been experiencing large backlogs. The Chief Justice of the Ontario Court of Justice replied to our questions on her views of the number of courtrooms available as follows:

> There are no locations in the province with excess courtrooms. On the contrary, there are many locations in which there are barely enough courtrooms for the number of judges assigned to those locations. Courtrooms and the appropriate office facilities for judges in existing courthouses is foreseen as a major stumbling block to the need to increase judicial complement in those locations that suffer from chronic backlog. Moreover, the recent increase of 1000 police officers in the province, and the creation of the guns and gangs task forces of police and Crown resources, have and will continue to have a very predictable impact on the workload of the Court, particularly with major prosecutions that take a disproportionate amount of court time. Without a similarly significant increase in judicial resources and facilities there has been and will continue to be an unavoidable increase in the backlog of cases and longer times to trial in those locations affected.
>
> While creation of additional courtrooms and judicial facilities is certainly not an easy task nor one that can be accomplished overnight, courtrooms and facilities must keep pace with the increasing caseloads or they will ultimately become the main cause of unacceptable backlogs.

In 2007, a consultant hired by the Ministry estimated that, on the basis of current use of the courts, the province had a significant shortfall of 98 courtrooms and will have a shortfall of 169 by

2017 and 210 by 2031 in light of projected usage. Judging by the Ministry's 2006 construction costs for building new courthouses, we estimate that this lack of necessary courtrooms will have significant capital funding implications for the Ministry. As much as $430 million may be needed to construct new courthouse facilities to meet existing shortfalls, and a further $500 million may be needed to address long-term needs. Since 2007, the Ministry had completed or had approvals to construct 38 new courtrooms and had further approvals to build 33 more courtrooms over the next three years. In addition, we were informed that it is working on a 25-year asset-management plan that will be completed within the next fiscal year.

RECOMMENDATION 5

In order to ensure that court facilities meet the immediate and long-term needs of the justice system and do not act as an impediment to resolving the chronic backlogs of cases, the Ministry of the Attorney General, in consultation with the Judiciary, should establish definitive plans and timetables for satisfying existing shortfalls and meeting forecasted demands for courtroom facilities.

MINISTRY RESPONSE

The Ministry will continue to address the shortfall in courtrooms through the infrastructure planning process. The Ministry will refresh the courtroom-forecasting model on an annual basis and complete the Ministry Asset Management plan within the next fiscal year. The Ministry will continue its current consultation processes with the Judiciary through the Ontario Courts Design Committee and the Superior Court Facilities Committee.

COURT SECURITY

Under the *Police Services Act*, local police services boards are responsible for determining the appropriate levels of security in courthouses to ensure the safety of judges and persons taking part in or attending court proceedings. The local police services contribute to court security primarily by providing and paying for trained officers to manage and implement security measures and to operate security devices. The Ministry has the responsibility for court-security-related capital costs but not staffing. Those costs include ensuring that courthouses are designed and maintained to appropriate levels of security, such as having secured corridors and holding cells, and for installing security devices, such as metal-scanning equipment at entrances and video surveillance cameras. In addition, police services may establish local security committees, with representatives from the Ministry, Judiciary, police, and Crown prosecutors, at each courthouse to provide advice on security-related matters.

The *Province of Ontario's Architectural Design Standards for Court Houses*, last revised in 1999, sets building standards for security. Such standards include the need for secure screened entries for the public, separate secure entries for the Judiciary, and the separation of corridors to be used by the Judiciary, the accused, and the public. The Ministry informed us that these standards have been applied for newly built court locations and for retrofit projects of existing courthouses, but that addressing security concerns within existing court locations can be problematic because of prohibitive costs or restrictions associated with the use of leased premises, heritage, and older buildings.

As was the case in our 2003 audit, there continues to be no minimum standard for security in court locations applied across the province. All three Chief Justices again expressed concern about this to us. They cited the patchwork and inconsistent application of security measures, practices, procedures, and staffing in courthouses throughout the province, which may expose court users to unnecessary security risks. The Chief Justices offered suggestions for improvement, including the need for standardized courtroom and courthouse security standards and response protocols across the province, and a review of the statutory responsibility for court security.

Between 2004 and 2007, the Ministry's Facilities Management Branch (Branch) hired consultants who conducted courthouse assessment studies to evaluate all court facilities in the province, including security issues. The assessments identified common security risks, including the lack of separate and secure corridors; lack of secure parking for the Judiciary; lack of sufficient holding areas; no security checks at public entrances and/or entrances not monitored and lacking electronic access controls; lack of video camera surveillance; and lack of or too few panic buttons or no monitoring of panic buttons by local police or court staff. We noted that the Ministry had made some progress in addressing deficiencies during the last five years. Fourteen of the 21 courthouses the consultants had identified as having significant security deficiencies have been partially upgraded since the assessments or have been included in capital funding plans for in the near future. However, there were no formal plans available to address the security deficiencies in the other seven.

In addition, we observed the security features of seven courthouses that were between five and over 100 years old. All included adult criminal courts, and most also included youth criminal, family, and civil courts. As Figure 10 shows, the security measures in the courthouses varied significantly and none had all the best practices in place. Even the courthouse that had been built only five years ago had security problems.

In some courthouses, security equipment was in place but local police had not provided the staffing to operate it. For example, two courthouses we visited had metal-scanning equipment at the public entrance, but it was unattended and not in use. For one of these courthouses, we had noted in our *2003 Annual Report* that this same equipment was not being used at that time either. At another two courthouses, video surveillance cameras were installed but no police staff were stationed to view the monitors and there was no video recording that would allow for subsequent viewing should an incident occur. At one courthouse we visited, the Ministry had announced in February 2007 funding of

Figure 10: Security Measures at Seven Criminal Courthouses

Prepared by the Office of the Auditor General of Ontario

	Courthouse						
	1	2	3	4	5	6	7
age of courthouse (years)	**30**	**30**	**34**	**108**	**5**	**25**	**30**
# of courtrooms	**13**	**22**	**23**	**2**	**5**	**15**	**10**
metal-scanning equipment installed and in use at public entrance	installed but not in use	yes	yes	no	installed but not in use	yes	yes
x-ray scanning machine for baggage at public entrance	no	yes	no	no	no	no	no
monitored video surveillance cameras in public corridors	no	no	no	no	yes	yes	yes
panic buttons in courtrooms and high-risk locations	no	yes	yes	no	yes	yes	yes
segregated secure corridors for the Judiciary, the accused, and the public	no	no	no	no	yes	no	no
secured parking for the Judiciary	no	yes	yes	no	yes	no	no

$252,000 to consolidate multiple public entrances into one controlled entrance with police security checks to detect illegal items, such as weapons, entering the courthouse. However, at the time of our audit, no change had been made because the Ministry and local police services had not reached agreement on the need for the project and on the staffing and funding implications for the police.

The government has indicated that court security will be reviewed as part of the Provincial-Municipal Fiscal and Service Delivery Review that began in fall 2006 and is expected to make recommendations in 2008.

In April 2008, the Branch initiated a Court Security Study to develop guidelines for court perimeters and public spaces within a courthouse, a methodology for undertaking threat risk assessments, and an overview of the technology for use in courthouses. The Ministry also informed us that the 25-year capital plan it was working on will also address security issues in courthouses.

RECOMMENDATION 6

To ensure the safety of the Judiciary and persons involved in court proceedings, the Ministry of the Attorney General should prioritize and set timetables for addressing safety deficiencies in the design of existing courthouses and evaluate and resolve any barriers that exist with its municipal partners for achieving an appropriate and consistent level of security in all court locations.

MINISTRY RESPONSE

The Ministry will continue to work with key partner ministries, including Community Safety and Correctional Services and Municipal Affairs and Housing, to address security concerns through the Provincial-Municipal Fiscal and Service Delivery Review. This review is expected to release a final report before the end of 2008.

The Ministry will continue to work collaboratively with local police services boards to address site-specific security issues. The Ministry will also continue to invest capital funding in security-related projects in Ontario's courthouses through the annual infrastructure planning process.

The Ministry will complete threat risk assessments and building physical security plans in accordance with the government's physical security directive.

COLLECTION OF FINES

Enforcing the payment of fines is necessary to ensure the integrity of the justice system and to deter offenders from re-offending in the future. As of February 2002, the government had transferred to municipalities responsibility for the administration and prosecution of most charges that fall under the *Provincial Offences Act*, including *Highway Traffic Act* offences. The Ministry still retains responsibility for collecting fines for violations primarily under the *Criminal Code*. With respect to these violations, the Ministry imposes about $16.6 million in fines annually, of which about 70% is paid either voluntarily or as the result of collection efforts. As of March 2008, the Ministry had outstanding fines of approximately $35.9 million.

The Ministry uses the Collection Management Unit (CMU) of the Ministry of Government Services for collection of outstanding fines. The CMU contracts with private collection agencies for their services. In our *2003 Annual Report*, we reported that the Ministry needed to improve its efforts to collect fines. In this regard, the Ministry now transfers outstanding fines daily to the CMU. This helps to ensure that collection efforts are more timely. The CMU prepares regular reports tracking collection efforts.

With respect to other recommendations we made in 2003 and areas for further improvement, we noted the following:

- During 2007, the CMU collected an average of 43% of the total fines that were in default. However, in 2004, 2006, and 2007, the Ministry wrote off in total about $57 million in fines that were in default and considered uncollectable. The Ministry has not established any performance targets or benchmarks, such as collection rates in other provinces, to evaluate the CMU's performance, and it relies solely on comparative results from previous years.
- According to the Ministry's agreement with the CMU, the Ministry is required to authorize the various types of enforcement measures to be used by private collection agencies. The Ministry's enforcement measures for the collection of criminal fines are considerably weaker than those used by other ministries and some provinces. Since our *2003 Annual Report*, the Ministry has introduced no new vigorous enforcement measures to pursue outstanding fines, such as possibly suspending driver's licences, charging interest and collection charges, and investigating withholding income tax refunds. We noted that most provinces, including Ontario, have agreements with the Canada Revenue Agency to withhold federal income tax and GST payments from people with overdue Crown debt, which we believe should also be considered to collect outstanding judicially imposed fines.

RECOMMENDATION 7

To improve collection of outstanding fines and better ensure that fines act as an effective deterrent to re-offending, the Ministry of the Attorney General should:

- conduct a formal assessment of more vigorous enforcement measures and implement those that can help to enforce the payment of court-levied fines; and
- establish benchmarks for comparing its collection rate of fines with other similar jurisdictions.

MINISTRY RESPONSE

The Ministry has conducted inter-jurisdictional research into best practices in fine enforcement in order to support its discussions with municipal partners and other ministries about streamlining enforcement of the *Provincial Offences Act*. The Ministry will continue to explore the feasibility of these and other fine-enforcement mechanisms, some of which may also be appropriate for *Criminal Code* fine enforcement. The *Provincial Offences Act* Streamlining Working Group is expected to finalize its recommendations to the Attorney General after stakeholder consultations planned for fall 2008.

With respect to benchmarks, the Ministry will establish them for comparing the collection rate of *Criminal Code* fines with other similar jurisdictions.

OVERSIGHT OF MUNICIPALLY ADMINISTERED COURTS

As mentioned above, in 1999 the government started to transfer to 52 participating municipalities the responsibility for the administration and prosecution of most charges that fall under the *Provincial Offences Act* (POA), including the collection and retention of fines for these charges. Most of the fines transferred were for offences committed under the *Highway Traffic Act*, which falls under the POA. Since the responsibility was transferred, municipalities have been required to pay the costs for administering courts, prosecutions, and the collection of fines, and to reimburse the province for its associated costs, including the cost of justices of the peace who preside over municipally administered courts, and the cost of the municipalities' use of the ICON system for tracking offences and payments.

Under transfer agreements established with these municipalities, the Ministry sets performance standards for the conduct of prosecutions, for the administration of the courts, and for the provision of court support services.

In general, we found that the Ministry had established adequate procedures and standards for municipal delivery of court services and for monitoring municipalities' compliance with these standards. Controls included ministry audits and regular reporting by municipalities. For instance, over the last four years, the Ministry conducted audits of financial and operational practices at about 70% of the municipalities that administer courts.

In late 2004, the Ministry established a committee with provincial, municipal, and judicial representatives to discuss issues related to municipally administered courts. We noted that the committee had discussed several issues related to improving support for the municipalities' court operations, as follows:

- In 2002, the province transferred to municipalities the right to collect $485 million in fines that were uncollected by the Ministry at that time, most of which had been outstanding for several years. Since then, the amount of uncollected fines has grown: for example, in 2007, municipalities imposed fines totalling $289 million and collected approximately $215 million. By December 2007, the total fines owed to municipalities had grown to more than $900 million.

  Municipal courts can only apply enforcement measures authorized by the Ministry. These measures include the use of collection agencies and, in the case of unpaid *Highway Traffic Act* fines—which represent about 75% of all unpaid fines—driver's licence suspensions or the denial of vehicle plate renewals. Municipalities complain that stronger enforcement measures are needed to collect fines that are in default. We understand that for the Ministry to authorize further measures, it may require legislative changes and co-operation with other ministries, such as the Ministry of Transportation.
- Backlogs at municipally administered courts have resulted from the increase in the number of charges laid by municipalities and the lack of enough justices of the peace available to handle the increase. From 2005 to the end of 2007, pending charges grew by 34%—to over 380,000. In 2007, the Ministry increased the number of justices of the peace by 45 full-time and 28 part-time positions and converted 19 non-presiding justices of the peace to full-time presiding positions. This has subsequently helped to reduce the backlog. However, municipalities informed us that the Ministry's failure to address the problem earlier has had significant ramifications. Municipal representatives told us that they had to close courtrooms and dismiss charges because of insufficient judicial resources to handle cases within a timely period. For example, one municipality indicated that close to 40% of available trial time was lost in 2007, primarily because there were not enough justices of the peace. Another municipality estimated that it dropped about 10,000 charges in 2006 and another 2,900 in 2007, with potential lost revenue of almost $700,000.

In addition, we found that the Ministry's oversight role with respect to municipally administered courts was limited to municipal delivery of court services and related financial and operational matters. However, the Ministry's oversight did not include consideration of overall policy implications, such as what the impact of allowing municipalities to retain fines levied under the *Highway Traffic Act* and other POA offences had been. We found, for instance, that charges issued by most municipalities had increased significantly after municipalities assumed responsibility for the administration and prosecution of most charges that fall under the POA. In particular, we compared the number of POA charges imposed by each participating municipality, both before and after the transfer agreements were established, with the number of charges issued by the Ontario Provincial Police (OPP) to determine if the introduction of new revenue-generating powers might have influenced municipalities' charging practices.

As Figure 11 shows, there were significant increases in the charging practices of certain municipalities. Some municipalities increased charges by over 100% whereas others had virtually no increase. Overall, municipal charges under the POA increased by 57%. By way of comparison, OPP charges under the POA increased by only 20% during the same period. Overall fines imposed by municipalities across the province increased 32%, from $219 million in 1999 to $289 million in 2007. At the time of our audit, the Ministry had not formally analyzed whether its policy decision had resulted in significant changes to municipal charging practices.

RECOMMENDATION 8

To support municipalities in their operation of courts and collection of *Provincial Offences Act* fines, the Ministry of the Attorney General should ensure that an adequate number of justices of the peace are appointed in a timely manner and consider providing municipalities with stronger enforcement measures. As part of its oversight role, the Ministry should also monitor the impact on municipal charging practices of its policy decision to allow municipalities to keep any related fine revenue resulting from charges under the *Provincial Offences Act* and the *Highway Traffic Act*.

MINISTRY RESPONSE

As noted by the Auditor General, the Ministry has responded to municipal needs for significantly more justices of the peace. To help relieve pressures on *Provincial Offences Act* courts, in 2007, municipalities were also given the authority to establish administrative monetary-penalty systems for parking infractions.

Since the transfer of *Provincial Offences Act* responsibilities to municipal partners was completed in 2002, the Ministry has implemented numerous initiatives to help municipalities collect *Provincial Offences Act* fines, including assisting in the development of municipal online fine-payment systems and allowing municipalities to recover collection agency costs. The Ministry will continue to explore the feasibility of other fine-enforcement mechanisms, and will continue to collect and analyze *Provincial Offences Act* court-activity data, including data about the number of charges received.

The Ministry monitors volumes of *Provincial Offences Act* charges filed in municipal courts across Ontario on a monthly basis. The decision to lay a charge is within the sole discretion of an enforcement officer, and charging volumes are influenced by a wide variety of factors, including population growth, commuter patterns, and the creation of new offences.

PERFORMANCE REPORTING

Good performance reporting includes these attributes: clear goals and objectives; complete and relevant performance measures; appropriate standards and targets for measuring results; reliable systems to gather the necessary information; and a reporting mechanism for regularly communicating accomplishments and areas requiring corrective action. Because responsibility for the courts is shared between the Division and the Judiciary, both parties have to participate in establishing effective performance reporting.

Since our *2003 Annual Report*, the Division has made substantial progress in providing more meaningful and comprehensive information to the public on courts. The Ministry's annual report includes details of court resources, activities, and initiatives; multi-year statistics on court volumes and trends with respect to incoming and disposed-of cases or

Figure 11: Comparison of Charges Laid by Municipalities* and the OPP under the *Provincial Offences Act*, *1999 and 2007*

Source of data: Ministry of the Attorney General

Location	1999	2007	% Increase
City of Toronto	381,756	680,297	78
Regional Municipality of York	71,360	138,922	95
City of Ottawa	49,715	126,794	155
City of Brampton	53,038	73,022	38
City of Mississauga	60,870	61,788	2
City of Hamilton	39,711	56,460	42
Regional Municipality of Durham	36,211	54,166	50
Regional Municipality of Waterloo	40,889	51,596	26
all other municipalities	282,855	357,526	26
Total – Municipalities*	**1,016,405**	**1,600,571**	**57**
OPP – Province-wide	**428,182**	**515,940**	**20**

* 52 municipalities that administer POA courts

charges and court sitting hours; and specifics of its five-year plan for making courts more effective, efficient, and accessible. The plan, which is updated annually, establishes business goals and key initiatives for achieving each goal.

The Ministry also provides further information on its website regarding court activities and initiatives. For instance, as part of its recent Justice on Target strategy to reduce criminal case backlogs, it published information on trends in the number of court appearances and time required to dispose of cases in OCJ courthouses.

In addition, the OCJ published in December 2006 its first annual report for the year ending December 31, 2005. The annual report provides extensive details on the composition, operations, and volume of activities of the court.

Our comparison of the annual reports of Ontario courts with those of other provinces indicated that the Ontario reports are among the most comprehensive of all the provinces. However, certain areas can be improved to ensure that more timely and relevant information is made public on the efficiency and effectiveness of courts:

- Amendments to the *Courts of Justice Act* (Act), effective January 2007, require the Ministry to publish an annual report on courts within six months after the end of every fiscal year. We noted the most recent annual report published by the Division was for the 2004/05 fiscal year, which ended March 31, 2005. We received a draft annual report covering both 2005/06 and 2006/07, but as of March 31, 2008, it had still not been published. The draft report included information that was consistent with the most recent published report.
- The amendments to the Act included five specific legislated goals for the administration of the courts. The Division had in place since 2002/03 five internally developed business goals, but only three of them were similar to the legislated goals. The Division should realign its goals with the legislated ones in order to comply with the Act.
- As mentioned earlier, in June 2008 the Ministry, through its Justice on Target strategy, set for the first time public targets to reduce backlogs in Ontario's criminal courts. In the Ministry's annual reports, neither the Ministry nor the Division has included case backlogs as a measure of the Ministry's performance with respect to either its stated business goal

of "timely and efficient case processing" or of "accessible services," and the annual reports do not provide information on the extent of backlogs. The 2005 annual report of the Ontario Court of Justice addressed backlogs in criminal courts by including a description and assessment of the growth trend and average age of criminal charges pending. Our research indicated that several U.S. states also provided public information on backlogs in their courts.

RECOMMENDATION 9

In order to meet its legislated requirements and to build on its progress to date in providing the public with meaningful and timely reporting on the success of its courts administration program, the Ministry of the Attorney General should:

- develop performance indicators for all of its legislated and internally established goals and operational standards, such as time to trial, court backlogs, and operational costs; and
- publish its annual report to the public within six months of its year-end as required by legislation.

MINISTRY RESPONSE

The Division is considering the performance measures established by the National Center for State Courts, a U.S. organization with extensive expertise in court administration. The Center has developed 10 "CourTools" for use by state courts, including measures for time to trial and operational costs. The Division is reviewing these "CourTools" to determine whether they would be feasible and meaningful in Ontario's courts.

The Ministry will continue to work with the Judiciary to develop indicators of delay in child protection cases.

As required in the amendments to the *Courts of Justice Act, 2007*, the Division will meet its commitment to publish its annual report within six months after the end of every fiscal year.

Chapter 3

Ministry of Training, Colleges and Universities

Section

3.08 Employment and Training Division

Background

The Employment and Training Division (Division) of the Ministry of Training, Colleges and Universities (Ministry) and its network of service providers offer training programs and services designed to help meet the demand for skilled labour; to prepare unemployed Ontarians to enter or re-enter the workforce; to help students find summer employment; and to assist workers facing business closures or other significant workforce adjustments.

Since the signing of the Labour Market Development Agreement with Canada in November 2005, the Division has been working to integrate employment and training services formerly provided by the federal government. Under the agreement, which became effective on January 1, 2007, the Ministry became responsible for administering several federal programs that together are referred to as Ontario Employment Benefits and Support Measures (EBSMs). There are several EBSM programs designed to help individuals eligible for Employment Insurance (EI) benefits or unemployed individuals. As these programs are consistent with Part II benefits of the *Employment Insurance Act*, funding for them comes from the EI fund.

Canada provided more than $529 million for these programs in the 2007/08 fiscal year as well as $53 million for administrative costs, including salary and benefit costs for the over 500 staff that were transferred to the Ministry. It also committed to provide $25 million over three years to develop new information systems to support delivery of the transferred programs. A number of agreements with third-party service delivery agents and a legacy information system were also transferred.

EBSM program expenditures for the first fiscal year of the agreement are shown in Figure 1.

Figure 1: Ontario EBSM Expenditures, 2007/08 ($ million)

Source of data: Ministry of Training, Colleges and Universities

Program	Expenditures
Employment Assistance Services[1]	214.6
Skills Development[2]	162.7
Self-Employment Benefit[2]	64.3
Federal Apprenticeship Training–In-school	31.9
Targeted Wage Subsidy	19.3
Job Creation Partnerships[2]	14.7
Federal Non-Apprenticeship Training	12.9
Labour Market Partnerships[1]	7.1
Targeted Earnings Supplement	1.4
Research and Innovation[1]	0.3
Subtotal	**529.2**
administrative costs[3]	55.8
Total	**585.0**

1. support measure
2. employment benefit program
3. Only $53 million of these costs were reimbursed by the federal government.

These programs are to be integrated with the Division's existing employment and training programs, which are available to all clients whether or not they are eligible for EI, to provide integrated and improved labour market services for Ontarians and a rapid re-employment system. The goal is to provide a one-stop training and employment system to better serve apprentices, immigrants, unemployed individuals, and youth in transition from school to work. This integrated network is referred to as Employment Ontario. Expenditures on existing programs for the 2007/08 fiscal year are shown in Figure 2.

The Division now spends more than $900 million annually on Employment Ontario programs and services, which are delivered through a network of field offices and some 1,200 third-party service providers including community colleges, school boards, private career colleges, union training centres, and not-for-profit agencies.

Audit Objective and Scope

With the signing of the Labour Market Development Agreement (LMDA) with Canada and the resulting transfer of funding, programs, and staff effective January 1, 2007, the Ministry has been implementing significant organizational, process, and system changes to the way employment training and labour market programs are delivered in the province. Our audit therefore focused on two pre-existing ministry programs—Apprenticeship Training, and Literacy and Basic Skills—and two former federal programs—the Skills Development Program and the Self-Employment Benefit Program—which had not changed but may change in the future as programs and services become more integrated. Altogether these programs represent $412 million or about 48% of the Employment and Training Division's expenditures.

Figure 2: Ontario Employment and Training Program Expenditures, 2007/08 ($ million)

Source of data: Ministry of Training, Colleges and Universities

Program	Expenditures
Job Connect	132.8
Literacy and Basic Skills	80.9
Apprenticeship Programs*	72.1
Summer Jobs Services	25.7
Adjustment Advisory, Local Boards, and other	22.2
Total	**333.7**

* Includes In-school Training, Ontario Youth Apprenticeship Program, Pre-apprenticeship, Co-op Diploma Program, Apprenticeship Innovation Fund, Loans for Tools, and other workplace training initiatives.

Our audit objective was to assess whether the Ministry had adequate systems, processes, and procedures in place for managing these programs to:

- ensure that services are being delivered in accordance with legislative and policy requirements;
- ensure that the Ministry and its delivery agencies are providing programs and services to clients in an economical and efficient manner; and
- measure and report whether the programs are meeting their objectives.

The scope of our audit work included reviews and analyses of ministry files, administrative directives, policies, and procedures, as well as interviews with ministry staff at the main office and at regional and field offices across the province. Our review of the Skills Development Program included visits to three of the four regional offices (Central, Eastern, and Western) and to one local office within each region (Hamilton, Ottawa, and the Toronto Skills Development Unit, including four local offices with the responsibility to monitor Skills Development clients). The three local offices visited delivered the program through 20 service providers. Our visits to the three regions and three local offices included an examination of a sample of client files. We also visited delivery agencies for the Self-Employment Benefit Program to examine files and other supporting documentation and to interview staff. We also considered the recommendations that we made regarding the Apprenticeship and Literacy and Basic Skills Programs in our last audit of the Training and Employment Division in 2002.

Our audit followed the professional standards of the Canadian Institute of Chartered Accountants for assessing value for money and compliance. Having set objectives for what we wanted to achieve, we developed audit criteria that covered the key systems, policies, and procedures that should be in place and operating effectively. These criteria were discussed with and agreed to by senior management at the Ministry. We designed and conducted tests and procedures to address our audit objectives and criteria.

Summary

With respect to the two pre-existing ministry programs, Apprenticeship Training and Literacy and Basic Skills, we found that, although the Ministry has made improvements and been successful in increasing apprenticeship opportunities and registrations over the last several years, it has had less success in ensuring that apprentices successfully complete their training to meet the high demand for skilled labour. Research indicates that fewer than half of apprentices complete their training. Also, the Ministry needed to investigate why half of all apprentices fail to pass their final certification exams even though the majority pass the in-school portion of their training. Further work is also needed to reduce funding inequities among Literacy and Basic Skills service providers.

With respect to the two programs transferred from the federal government on January 1, 2007, that we examined, Skills Development and Self-Employment, we found that the Ministry needed to take further steps to ensure that these were delivered consistently and fairly across the province so that clients in similar circumstances would receive similar services and levels of support regardless of where they live.

Our specific concerns with each program are the following:

Apprenticeship Training

- Expenditures on apprenticeship programs have increased 25% since our last audit in 2002, and the number of registered apprentices has more than doubled to 109,000. However, the Ministry did not have sufficient information on completion and employment rates and on the reasons why a high percentage of apprentices fail to complete their training and become certified.
- Training consultants at the field offices we visited were concerned about their inability to conduct more than a few, if any, monitoring visits to employers and in-class training providers to determine compliance with training contracts and service agreements. They stated that their overwhelming priority was meeting the apprenticeship registration targets, and that there was too much emphasis on getting people registered rather than increasing the number who successfully become certified.
- The Ministry did not have strategies to increase registrations in high-demand skilled trades. Most of the increase in apprenticeship registrations over the last several years has been in the expanding services sector, including call-centre and customer service trades.
- Trades that are restricted for workplace and public safety reasons require effective monitoring and enforcement to discourage uncertified individuals from working in the trade. Most of this enforcement responsibility has been delegated to Ministry of Labour workplace inspectors, who have increased enforcement activity since our last audit, particularly in the construction industry. However, the Ministry has not adequately coordinated its enforcement efforts with the Ministry of Labour and other ministries and agencies with

safety enforcement responsibilities to ensure effective enforcement in other sectors such as the motive power (vehicle and equipment servicing) trades.

Skills Development and Self-Employment Programs

- We found, and recent internal ministry reviews confirmed, inconsistencies in the way local offices decide how much support to provide. For the Self-Employment Program, decisions on which applicants to support are also inconsistent. Clients in similar financial circumstances may receive quite different amounts of support to pursue their training or start their business. Local offices were not getting clear guidance nor were they being monitored to ensure that their oversight processes were appropriate.
- Although we found some client training agreements in the Skills Development Program that cost the Ministry more than $50,000 and were not necessarily in line with program objectives, we noted that recent measures introduced by the Ministry helped to reduce some of the inconsistencies and the number of high-cost agreements entered into. However, monitoring to ensure that participants successfully complete their training and comply with program requirements needed improvement.
- Under the Labour Market Development Agreement, the Ministry has committed to performance targets for the transferred programs, such as the number of Employment Insurance (EI) recipients returned to employment and savings to the EI account. However, information about the effectiveness of the programs was still insufficient, including information on whether clients remained employed in the fields they were trained for and whether self-employment clients were able to sustain their new businesses.

Literacy and Basic Skills

- The Ministry has made some progress since 2002 in reducing funding inequities among the service providers. However, we noted that many providers spent virtually all of their funding yet failed to deliver the approved service hours—in some cases significantly so. The Ministry needed to implement a funding model that recognizes learner outcomes and better matches funding to service levels provided.

OVERALL MINISTRY RESPONSE

The Ministry acknowledges the report as being balanced and welcomes the review and findings of the Auditor General. The recommendations will be used to improve the Ministry's business in terms of both work that is ongoing and work that will be undertaken in the future.

The Ministry understands the critical importance of knowledge and skills in meeting the aspirations of Ontarians and the needs of Ontario's employers. A skilled and highly educated workforce is a key economic advantage and enhances Ontario's position as a destination of choice for global investment.

The Ministry is developing a Knowledge and Skills Strategy—to provide the broad framework and targets to guide future ministry investments in education and training after high school—that includes postsecondary education, adult literacy, and skills training, including apprenticeship.

The Ministry is taking a key step to promote the skilled trades and modernize the apprenticeship system by introducing legislation in spring 2009 that, if passed, would implement a new College of Trades. The Ministry also agrees with the need to take action to ensure that apprentices successfully complete their training and is doing so.

Launched in November 2006, Employment Ontario (EO) is the province's integrated employment and training network. The EO network delivers a wide range of services, including many recently transferred from the federal government, to people across Ontario to help them join or rejoin the workforce, improve their on-the-job skills, or move to better employment.

The Ministry is in the process of integrating and redesigning former federal and provincial programs. Since the transfer of federal programs, the focus has been on uninterrupted customer service delivery and business continuity. A new Employment Service Model has been designed, and the Ministry is looking to transform Ontario skills training.

Along with our extensive stakeholder consultations, the Ministry will use the Auditor General's report as a basis for moving forward with the transformation. The Ministry recognizes that some areas need to be strengthened, and the recommendations will help us to do so. These changes will help ensure that the EO transformation meets the needs of clients, the community, and our stakeholders.

Detailed Audit Observations

APPRENTICESHIP PROGRAM

The Apprenticeship Program is governed by two acts. The *Trades Qualification and Apprenticeship Act (1990)* governs 33 construction sector trades, and the *Apprenticeship and Certification Act, 1998* governs trades in the industrial/manufacturing, motive power (vehicle and equipment servicing), and service sectors. Each act establishes specific requirements for apprenticeship completion and the roles of the Ministry and industry. Each act also stipulates that certain trades—known as compulsory or restricted trades—may be practised only by registered apprentices or individuals who hold a certificate of qualification. Certification is optional for all other trades, which the acts call voluntary or non-restricted trades.

Apprenticeship is a work-based training model that combines on-the-job training (approximately 90%) with classroom training (approximately 10%). The length of an apprenticeship can range from two to five years, during which time the apprentice must typically complete at least three in-school training sessions.

Each apprentice signs either a registered training agreement or a contract of apprenticeship (depending on the trade) with an employer, requiring the employer to help the apprentice acquire both work experience and trade-specific competencies. Once a training agreement or contract is signed and filed with the Ministry, the apprentice is officially registered. A person who successfully completes the apprenticeship requirements receives a certificate of apprenticeship. For certain trades, the apprentice must also pass a trade-specific examination to obtain a certificate of qualification. Individuals who have completed all the requirements and acquired a certificate of qualification or certificate of apprenticeship (or both) as required for the particular trade are referred to as journeypersons.

The Ministry's 100 training consultants located in 26 field offices across the province provide services such as registering apprentices and consulting with the training providers and some 34,600 employers.

Developments Since Our Last Audit

Over the last several years there has been a significant emphasis on increasing apprenticeship training opportunities as one means of addressing acute skill shortages in some sectors of the Ontario economy. Since 2001/02, ministry expenditures on apprenticeship training have increased by 25% from $81 million to $101 million. As of June 2008, the number of active trades has increased 12% from 136 (20 of which required mandatory certification) to 153 (21 of which require mandatory certification), and the number of registered apprentices has more than doubled from 52,000 to 109,000. The government has committed to increase annual registrations by a further 25% to 32,500 by 2011/12.

The Ministry has also revised the training standards, curricula, and examinations for eight of the nine trades that were identified as seriously outdated in our *2002 Annual Report*.

Although progress has been made, there are still a number of areas where further progress is needed to ensure that apprenticeship training is effective at meeting labour market needs for skilled workers.

Tracking Completion Rates

As we stated in our last report in 2002, increasing the number of registered apprentices will not meet the demand for skilled workers unless apprentices complete their programs and acquire the training and skills needed by the labour market. Consequently, the Ministry needed information on apprenticeship completion and employment rates in relation to labour market demand. The Ministry agreed and committed to implement outcome-based performance measures by January 2004 and thereafter to report publicly on achievements, including apprenticeship completion and employment rates.

Although the Ministry did begin a project to determine how best to calculate and track completion rates for apprenticeship, the project was never completed. In 2005, the Ministry began implementing a continuous-improvement performance management system to strengthen the apprenticeship workplace training system. The key priorities and performance measures were to be apprentice registrations, completions, and customer satisfaction. However, to date the Ministry has publicly reported only on the number of annual apprenticeship registrations. It has not published any other meaningful performance information about the program.

In the absence of ministry data on apprentice completion rates in Ontario, we researched available data on completion rates both across Canada and Ontario produced by research organizations. A 2005 study by the Centre for the Study of Living Standards reported that apprenticeship registrations had increased substantially over the past 25 years but the number of apprentices completing their programs had not grown proportionately, and in fact had declined. The centre reported that the completion rate across Canada in 2005 was 39%, down from 63% in 1982. It also reported that Ontario's 32% completion rate was the third lowest among the 10 provinces. In comparison, Manitoba's completion rate, the highest among the provinces, was 61%.

The report noted that these completion rates are far lower than the rates calculated for other post-secondary education. The construction and food and service trades sectors were found to have the lowest completion rates, at 31% and 34% respectively—notably, the carpenter, plasterer, roofer, painter, cook, and heavy equipment operator trades. The trades with the highest completion rates were industrial electrician, ironworker, industrial mechanic, and mobile crane operator.

Statistics Canada undertook two research projects, released in 2007 and 2008, to assess completion rates for apprentices who had registered in 1992 and in 1993 in three provinces: New Brunswick, Alberta, and Ontario. Using a different method of determining completion rates than the Centre for the Study of Living Standards, its study found that apprenticeship completion rates were 59% in Alberta, 50% in Ontario, and 47% in New Brunswick. It also found that construction trades had the lowest completion rate.

While is it important to track completion rates, it is just as important to determine why apprentices fail to complete their training and at what stage in their training they drop out. However, the last ministry survey of apprentices and journeypersons to determine why they had left the apprentice program before completing it was in 1997. The three most common reasons given were limited employment opportunities or employment instability, dislike of the work or trade followed by finding another job, and unsuitable training.

In 2005, the Minister's Action Table on Apprenticeship was formed to bring together various stakeholders from across the apprenticeship system. The committee suggested several strategies for improving completion rates, including:

- ensuring that in-school training is relevant, current, and of appropriate duration;
- ensuring that examinations are appropriate;
- improving the tracking and monitoring of apprentices as they progress through their programs, and providing supports such as counselling and extra training, where needed; and
- implementing a program to help employers be good trainers and to improve the connections between workplace and in-school training content.

Despite the progress it has made in increasing apprenticeship registrations, the Ministry is not yet systematically collecting the information that it needs to increase the effectiveness of the apprenticeship system: who is attracted to particular trades; factors that contribute to successful completion of apprenticeship programs; how apprentices fare once they finish their training; and which trades have low completion rates, and why.

RECOMMENDATION 1

To better ensure that apprentices complete their training and contribute to meeting labour market demand for skilled workers, the Ministry of Training, Colleges and Universities should:

- **measure and track apprentice completion and employment rates using methods that permit comparisons among trades and over time as well as benchmarking to other jurisdictions; and**
- **periodically assess the reasons for which apprentices fail to complete their training and develop strategies to address the reasons identified.**

MINISTRY RESPONSE

We agree with the recommendation. The Ministry has taken action to increase apprenticeship completion rates, including delivering certification exams at last in-school period, offering pre-certification courses, and exploring extension of in-school duration. The government recently committed to increase apprenticeship completions in the 2008 Budget. The Ministry will identify a baseline and set completion targets with incremental increases based on continuous improvement.

We will use National Apprenticeship Survey results to identify reasons for non-completion and to shape interventions to address those reasons.

Monitoring Program Quality and Compliance

On-the-job Training

Effective monitoring of the quality of training provided by both employers and in-school training providers is critical to the program's success in meeting the demand for skilled labour. Timely and ongoing monitoring may also increase the likelihood that apprentices will complete their programs and obtain certification. In our *2002 Annual Report* we noted that the Ministry had not developed a policy on monitoring either in-school or workplace training. The Ministry still has not developed policies to provide direction to the training consultants, although consultants are required to monitor compliance with regulatory requirements.

In 2005, the Ministry reported that it was moving to improve the quality of apprenticeship training programs and accountability for apprenticeship training. Ministry training consultants were to monitor each training agreement between an employer and an apprentice to ensure that training provided on the job meets the industry standards set for each trade. Field offices were to focus on registrations, consulting and counselling apprentices toward accreditation, and scheduling and monitoring on-the-job training. The Ministry also intended to measure client satisfaction with training consultants.

However, training consultants at the field offices we visited were concerned about their inability to conduct more than a few, if any, monitoring visits to employers and in-class training providers to determine compliance with the training contracts and service agreements. All training consultants we interviewed stated that their overwhelming priority was meeting the apprenticeship registration targets, and that there is too much emphasis on quantity and not quality.

Consultants were also concerned that increasing caseloads eliminated any time to work with existing apprentices or employers. Given that the number of training consultants has remained at 100 since our last audit while registration has risen, client caseloads have nearly doubled over the last few years and averaged about 900 to 1,000 apprentices per consultant. Consequently, it was largely up to the apprentices to complete their in-school training and contact their assigned consultant if they are having difficulties.

Many training consultants stated that they need ongoing communication with apprentices to motivate them to complete their programs, and that apprentices often complain of the long interval between visits. Reduced time for monitoring or contact with apprentices may be one reason for low completion rates.

The training consultants also stated that providing poor service to employers is detrimental to the program, especially in the non-restricted trades, as a result of the lower completion rates in these trades than in the restricted trades. With the reduced employer visits, the apprentices are now solely responsible to get the required training for completion of their training standard. Field staff believe that more frequent and more focused monitoring will also allow them to increase registrations by visiting more work sites and more potential apprentices.

With little monitoring of employers, it is difficult to assess the quality of the training being received by apprentices. Training consultants commented that apprentices registered in trades under the *Apprenticeship and Certification Act, 1998* are required to complete the training standard, but the onus is on the employer to ensure that apprentices are able to complete all the training requirements. Apprentices generally do not attempt the trade examination until they have received employer approval on all the requirements in the training standard, because a significant amount of content tested in the examination is based on these requirements. However, judging by the low pass rate on the examinations, discussed below, the quality of on-the-job training being provided may be open to question.

In-school Training and Support for Exams

The Ministry funds 65 training providers (24 colleges and 41 union- or employer-sponsored training centres) to deliver the in-school portion of the apprenticeship program. The Ministry's training consultants are required to monitor the quality of classroom training relative to industry standards for each trade.

Although the training consultants review the results of individual apprentices on their client lists and may know anecdotally if there are any problems with a particular program or provider, the Ministry does not review the in-school pass rates by program and by training provider. Such a review may identify differences worthy of investigation either as potential problems or best practices.

For example, we noted that the overall pass rate was approximately 90% for all in-school programs during the past three fiscal years, ranging from 100% to as low as 65% at one college and 61% at one private training provider. Several private training providers reported nearly 100% pass rates for over 2,500 apprentices during this period.

However, over the last five years, the pass rate on the examination for certification of qualification was only about 50%. In the power line technician and refrigeration technician trades, for example, the in-school pass rate was almost 100% but the certification of qualification pass rate was only about 65%. There appears to be little correlation between success in school courses and success in the examination for the certificate of qualification. The Minister's Action Table on Apprenticeship also raised this issue and questioned whether the right things are being examined and whether the in-school programs are long enough to ensure success.

We also noted that Ontario apprentices have among the lowest pass rates in the country. For example, in examinations for skilled trades in which interprovincial examinations are given, Ontario had the second lowest pass rate among all provinces for three of the top five of these trades and the third lowest for the remaining two trades.

One reason for the significant difference in the over 90% pass rate for in-school training compared to the approximately 50% pass rate on the certificate of qualification exam could be that much of the material tested on the examination is based on the 90% of training that is provided on the job. Success therefore appears to depend more on the quality of that experience, which the Ministry has not been monitoring. We also understand that other provinces have introduced additional supports to help candidates pass the examination. For example, all other provinces provide longer in-school training for their apprentices. The Minister's Action Table on Apprenticeship recommended that the Ministry develop and implement courses to prepare individuals for certification. It also suggested that training consultants could gain insight from examination candidates who did particularly well and use it to help prepare their fellow apprentices for the examination.

The Industry Training Authority of British Columbia is responsible for apprenticeship in that province and conducts an annual survey of apprentices who completed their technical or in-school training on the quality of their training. Survey results are published for selected programs. The BC authority also surveys apprentices who have completed the final year of their apprenticeship technical training on their workplace experiences and employment. Alberta also surveys apprenticeship graduates and reports biennially on their employment rates and satisfaction with their in-school and workplace training.

RECOMMENDATION 2

To better ensure the quality of training and support that apprentices receive in successfully completing their programs, the Ministry of Training, Colleges and Universities should:

- **review its resource requirements in field offices and its caseloads to enable training consultants to conduct sufficient and timely site visits to employers and in-school training providers and to better support their apprentices;**
- **monitor in-school pass rates among programs and service providers and compare them to certification examination success rates, and investigate the reasons for significant differences;**
- **periodically survey apprentices about their satisfaction with the quality of in-school and on-the-job training and any additional supports they received from the Ministry; and**
- **research practices in other jurisdictions that have been effective in improving examination pass rates and implement the best practices identified.**

MINISTRY RESPONSE

We agree with the recommendation. In response to the Armstrong Report on compulsory certification for trades (see Enforcement of Legislation on Restricted Trades section), the government of Ontario has announced its intent to create the College of Trades, which will contribute to the modernization of the apprenticeship and certification system to make it more responsive to economic needs, enhance the quality of apprenticeship training, and expand the system. If passed by the Legislature, the College may collect data such as in-school pass rates, completion rates, and other apprenticeship data to support best practices.

The Ministry recently received approval to hire additional field staff to support apprenticeship, and recruitment is under way. The Ministry is also completing regional apprenticeship registration and completion strategies that will enable greater monitoring activity.

The Ministry is currently conducting an Apprenticeship business process review and overhaul. Streamlining administrative practices and maximizing use of the Apprenticeship Support Application will allow Employment and Training Consultants to focus on their role to ensure quality training and monitoring and increase completions.

We will continue to participate in the National Apprentice Survey and ensure that questions relating to apprentices' satisfaction are included.

We will expand the practice of offering certification exams at the last apprenticeship in-school period and introduce pre-certification exam courses based on lessons learned from other jurisdictions.

Addressing Skill Shortages

Increasing apprenticeship registrations to help address skill shortages has been a high priority for the Ministry over the last several years. According to the Ministry, between 2003/04 and 2007/08, total annual apprenticeship registrations increased from 19,000 to over 26,000, or by 37%; this represents an increase of 64% since our last audit in 2002.

A number of initiatives were taken to increase registrations, including expanding the number of apprenticeship trades. The Ministry has added 20 new apprenticeship trades over the past five years and now offers 153 apprenticeship trades in four sectors: construction, industrial, service, and motive power.

We reported in our *2002 Annual Report* that a common problem in many jurisdictions, including Ontario, was the difficulty of expanding the apprenticeship system beyond traditional trades, such as those in construction and the automotive sectors, into less traditional and faster growing occupations, such as those in business and commerce, the health sciences, natural sciences, and social sciences. In fact, the largest increase in registrations has been in the service trades, where registrations have increased by 55% in the past two years. Although this progress is encouraging, the results for some new trades have been mixed. For example, some of the increase has been in non-traditional areas including call-centre trades that were added in 2005/06. There were 8,300 registrations in three call-centre trades alone over the past three fiscal years. However, 30% of the apprentices cancelled in 2007/08 with the termination of a large training contract. Many training consultants we interviewed mentioned that employment in the call-centre trades is very volatile, with many apprentices quitting in the first six months of employment.

Expanding into these new trades has helped meet labour market needs in some areas, but has not addressed the skilled worker shortage that has been widely reported by many union and employer advocacy and stakeholder groups. Different organizations have identified skill shortages in a number of high-demand trades, including plumber, industrial and construction electrician, steamfitter, mason, sheet metal worker, electronic mechanic, and auto body repair person. In the last two years, registrations in the construction trades increased by 17% while both motive power and industrial trades had only very small increases.

We examined the registrations, certification, and in-school attendance results for all trades over the past three years. We noted that certain industrial trades are in significant decline. For example, registrations for mould maker have been declining. Registrations for general machinist have remained constant, but the number attending school and obtaining the certificate of apprenticeship or qualification has declined dramatically. In-school seat purchases have declined by almost 50% for the general machinist trades and by over 75% for mould makers.

RECOMMENDATION 3

To increase the effectiveness of the apprenticeship program in meeting the demand for skilled workers, the Ministry of Training, Colleges and Universities should develop strategies to attract apprentices to high-demand trades and to help them successfully complete their training.

MINISTRY RESPONSE

We agree with the recommendation. In response to the recommendations of the Compulsory Certification Review, the government intends to introduce legislation to establish a College of Trades. If passed by the Legislature, the College would promote careers in the skilled trades and ensure that apprentices are receiving appropriate training. The College will raise the status of trades and will be able to assemble appropriate data to identify high-demand trades.

Enforcement of Legislation on Restricted Trades

Under the *Trades Qualification and Apprenticeship Act* and the *Apprenticeship and Certification Act*, 21 trades in the construction, motive power, and service sectors have been designated as restricted to certified tradespersons or registered apprentices. Restricted trades include such occupations as automotive technician and construction electrician. To ensure consumer protection and workplace safety, it is important that workers in such trades be properly qualified and trained.

Both Acts allow the Ministry to inspect workplaces to ensure that only qualified individuals are working in restricted trades. In 1993, the Ministry delegated enforcement of certificate requirements for 20 of these trades to the Ministry of Labour (MOL). Regulation 572/99 under the *Occupational Health and Safety Act* gives MOL inspectors the authority to determine whether the provisions of the two Acts respecting the restricted trades are being complied with. Ministry field staff indicated that over the past three years the MOL has increased its inspections, particularly at construction sites.

In August 2007, the Minister appointed Tim Armstrong, who had served as deputy minister at both the MOL and the former Ministry of Industry, Trade and Technology, to conduct a review of expanding compulsory certification for trades. His report, issued in April 2008, stated that requirements for compulsory certification will not be fully effective unless there are comprehensive enforcement mechanisms, accompanied by meaningful sanctions, to deter widespread contravention. One of the principal areas requiring enforcement is ensuring that the persons performing the work governed by the two Acts are properly qualified. He also reported that most stakeholders view enforcement as a major issue, and even with a substantial increase in the number of MOL inspectors, the number of work sites and their geographical extent make enforcement an enormous challenge.

According to the report by Tim Armstrong, MOL inspectors have issued 2,847 orders under Regulation 572/99 since 2004, primarily in the construction sector—945 of them to electrical contractors. The number of orders issued has increased steadily each year. The MOL was planning more province-wide enforcement in the electrical and demolition trades for summer 2008.

However, the training consultants commented that they seldom get referrals from MOL to register someone they identified working illegally in the motive power trades. During their own site visits to motive power shops, training consultants have found instances where unlicensed workers were doing restricted work illegally. They also indicated that effective enforcement in the motive trades is challenging because the work is often not concentrated in one job site and the industry has not advocated for increased enforcement activity, as the construction industry has.

The Ministry of Transportation (MTO) also has a role in ensuring public safety in the motive power industry through its responsibility for licensing businesses to issue vehicle safety certificates. For a business to be licensed as a Motor Vehicle Inspection Station and issue vehicle safety certificates, the issuer must be a licensed mechanic. Staff of the Ministry of Training, Colleges and Universities assume that MTO staff verify the status of the issuer before approving any Motor Vehicle Inspection Station, but had not obtained any information about the MTO's enforcement activities.

RECOMMENDATION 4

To reduce the extent of uncertified individuals working illegally in restricted trades, the Ministry of Training, Colleges and Universities should work with other ministries and bodies that have enforcement responsibilities in industries that require certification to share the plans for and results of enforcement activities and to develop a risk-based strategy for inspecting businesses and work sites in those industries.

MINISTRY RESPONSE

The Ministry participates in information-sharing with the Ministry of Labour (MOL) and is currently undertaking revisions to the agreement to improve MOL employees' access to the ministry data they need to enhance their enforcement activities. The Ministry also works with the Ministry of Transportation on specific investigations as requested.

Apprenticeship Training Tax Credit

The government introduced the Apprenticeship Training Tax Credit (ATTC) in 2004 to encourage employers to hire apprentices in certain skilled trades. An employer is eligible for a maximum tax credit of $5,000 per year to a maximum of $15,000 for the first 36 months of the apprenticeship. In the 2008 Budget, the government extended the ATTC by four additional years to 2015.

Qualifying skilled trades are recommended by the Ministry, but final approval rests with the Ministry of Finance (MOF). The vast majority of eligible trades are in the motive power, construction, and industrial sectors. The government has made only eight of 38 service trades eligible for the tax credit, including all call-centre trades.

The Ministry has not yet obtained any current information from the MOF on the level of activity in each trade or trade sector. Such information would help identify which sectors or specific trades have shown interest in the tax credit and determine the reasons for little uptake by certain sectors or trades. Information from the MOF such as the postal codes of the employers claiming the tax credit, the types of trades, and the size of the employers may also be useful in performing the necessary analysis.

The Minister's Action Table on Apprenticeship suggested that to improve the program's effectiveness, the tax credit could be expanded to more trades and linked to program completion rather than just registration, to provide an incentive for employers to help apprentices complete their training.

The program has been in place for four years, and an evaluation of its effectiveness may be timely.

RECOMMENDATION 5

To ensure that the Apprenticeship Training Tax Credit (ATTC) is effective in helping to expand apprenticeship interest and opportunities and meet labour market needs, the Ministry of Training, Colleges and Universities should work with the Ministry of Finance to evaluate whether it is achieving the expected outcomes and whether improvements are needed to enhance its effectiveness.

MINISTRY RESPONSE

We will continue to work with the Ministry of Finance to develop an evaluation strategy for the ATTC and to recommend enhancements and modifications to the ATTC as appropriate.

The Ministry is currently revising apprenticeship registration forms and employer resource materials to help employers more easily access the ATTC.

ONTARIO SKILLS DEVELOPMENT PROGRAM

The Ontario Skills Development (SD) program provides assistance to unemployed individuals who are or have recently been eligible for Employment Insurance (EI) benefits and need marketable skills in order to re-enter the labour market.

The SD program is available to individuals who are defined as insured EI participants under Section 58 of the *Employment Insurance Act*. In addition, the decision to assist an insured participant financially is based on a mutually agreed-upon Return to Work Action Plan (RTWAP) that identifies a lack of marketable skills as the barrier to employment. The goal of the RTWAP is to return the client to employment as quickly as possible; therefore, the emphasis is on supporting skills training in occupations where there is a good prospect of obtaining sustainable employment. Financial assistance to eligible participants may include some or all of the following: basic living expenses; dependent care costs; disability costs; other personal supports and transportation; tuition; and books and other instructional costs. All funding provided is a negotiated amount between the applicant and the Ministry.

The process of referral to and approval for SD begins with a needs assessment done by an Ontario Employment Assistance Services (EAS) provider. The client then develops the RTWAP and determines what his or her occupational goal is with the assistance of the EAS Case Manager. The client's application to the Ministry is required to provide information with respect to the requested training, research on and comparisons of training institutions, a summary of labour market opportunities in the requested field of training, financial information including income and expenses, as well as other information.

The EAS Case Manager must indicate on the client's completed SD application whether he or she supports the client's referral to SD and must provide a rationale for that decision. The Ministry assesses the information in the SD application and in supporting documentation against the program requirements and seeks additional information if necessary. In deciding whether to support an SD application, the Ministry considers a number of factors, including whether:

- labour market information provided indicates that there is a reasonable opportunity for employment in the particular field;
- the training institution will provide the EI-eligible client with the training required to return to employment;
- the training represents the shortest route to employment (an assessment of the length of the course);
- the cost of training is reasonable relative to the cost at other institutions researched by the client;
- where applicable, the training institution and course are included among those that meet

the requirements of the *Private Career Colleges Act*; and

- the RTWAP and supporting documentation identify an employment barrier (a lack of marketable skills).

Once the Ministry decides to support an application, the client and the Ministry enter into an agreement. The Ministry is subsequently responsible for obtaining receipts from clients and verifying whether they have completed their course. The EAS provider is responsible for monitoring the RTWAP and for case managing the client until the RTWAP is completed and closed, at which time the provider is required to report the employment status results of the RTWAP.

Expenses in the SD program totalled approximately $163 million (including $155 million for regular SD clients and $8 million for apprenticeship clients) in the 2007/08 fiscal year, to assist and/or support some 14,800 regular SD clients.

Our review of client files revealed that the vast majority at all three offices contained acceptable documentation demonstrating that there was a viable labour market for the approved clients to enter. Where clients were approved to attend private career colleges, in the vast majority of instances the institutions and courses they attended were registered and approved under the *Private Career Colleges Act*. We also observed that, for the most part, training costs were consistent with the costs posted on the Service Ontario website.

Nevertheless, we noted a number of areas where improvements were required to demonstrate the success of the program, to ensure that clients are treated equitably, and to manage program costs. One of the regions visited had reviewed the SD program and found many inconsistencies in how local offices determine the amount of income support provided to clients; another region had recently made similar findings in its review. Furthermore, two regions had also recently reviewed SD client files to determine compliance with program requirements. Preliminary observations made by two local offices that we visited were similar to our own.

Outcome Monitoring and Reporting

Currently, the only activity and performance indicators in place are those established in the Canada-Ontario Labour Market Development Agreement (LMDA). For the 2007/08 fiscal year, Service Canada and the Ministry agreed on targets for the following performance indicators:

- the number of active EI claimants who have accessed benefits and measures;
- the number of EI clients returned to employment; and
- savings to the EI account.

The information system used for the SD program and all other Ontario EBSM programs is the federal Common System for Grants and Contributions (CSGC); the federal government reports results related to these targets. The targets and preliminary results for the 2007/08 fiscal year as provided by Service Canada are shown in Figure 3.

Figure 3: 2007/08 LMDA Annual Targets and Results for Ontario Benefits and Measures

Source of data: Ministry of Training, Colleges and Universities

	All EBSM Programs	
Results Indicator	**Targets for 2007/08**	**Actual Results**
# of active EI claimants who have accessed benefits and measures	83,546[1]	82,943[2]
# of EI clients returned to employment	52,498[1]	53,951[2]
savings to the Employment Insurance Account ($)	204,500,000[1]	220,060,476[2]

1. as per 2007/08 Ontario LMDA Annual Annex
2. as per preliminary federal government reports received by the Ministry

Neither the three regional offices nor the three local offices visited had received performance targets pertaining to the SD program or to any of the newly transferred former federal programs. Thus, regional and local offices did not have a benchmark against which to measure their performance. In addition, none of the three regions visited prepared performance reports for SD or received such reports from their local offices.

Discussions with staff at the three local offices visited revealed that while they tracked SD clients to varying degrees, none of them comprehensively tracked employment results and none received comprehensive information on clients' employment results from their EAS providers with which to gauge the success of the SD program. Client surveys to obtain such information had either not yet been done or had been tried but the response rate was relatively low.

In addition, staff we interviewed generally did not think that current performance indicators were sufficient to gauge the effectiveness of the SD program. Their suggestions for improved performance indicators included measuring:

- whether clients are employed full-time or part-time;
- whether clients are employed in the field for which they trained under the SD program or a related field;
- if clients continue to be employed after set time intervals; and
- the level of income that clients are earning.

Nevertheless, we did observe that in the LMDA the Ministry and Service Canada had agreed to develop qualitative performance measures, although we were told that this had not yet been done.

RECOMMENDATION 6

To better gauge the effectiveness of the Skills Development Program in training clients for sustainable employment, the Ministry of Training, Colleges and Universities should establish targets for each region based on performance indicators that the Ministry has agreed to with Service Canada; track performance in relation to these targets; and develop and report on more informative performance indicators such as whether clients remain employed in the jobs they were trained for.

MINISTRY RESPONSE

We welcome the input as we move ahead with the transformation of Employment Ontario. Since the transfer of federal programs, there has been a focus on uninterrupted customer service delivery and business continuity.

Currently, the Ministry is in the process of implementing and transforming Employment Services and will next turn its attention to redesign of skills training. The Ministry will consider the measures noted in this recommendation while transforming Employment Ontario training services.

The Ministry is also managing a project that will result in the publishing of performance indicators for private career colleges.

Monitoring Program Delivery

Client/Applicant Complaints and Appeals

None of the three regional or three local offices visited had a formal complaints or appeals process in place for SD applicants and clients, and none kept a log identifying complaints and how they were discharged. Such a log could be a valuable source of information on client satisfaction and program consistency. It was indicated to us that in the vast majority of cases where a client complains or wants to appeal a rejected application, the first point of contact for the complaint is the individual who rejected the client. This could raise questions regarding the fairness and objectivity of the process.

Application Rejection Rates

One way of monitoring whether offices are applying eligibility criteria consistently is to track application rejection rates. While all three local offices visited tracked their SD application rejections to varying degrees, the offices either had not compared their rejection rates to those of other offices, or had done so only informally. Such a comparison was also not done regionally or provincially to determine if there are significant discrepancies between local offices within regions or between regions, and the reasons for any significant discrepancies.

A high rejection rate results in a significant draw on staff time. The application rejection rate at the three offices visited varied significantly: at one office it was just under 10% for the calendar year 2007/08; at another, it was approximately 36% between May 2007 and March 2008; and at the third office, the rate was 33% between October and December 2007 but fell to approximately 19% in February and March 2008 and continued to drop after that time. While two of the three regions visited had undertaken an analysis of SD client files to assess their consistency with program requirements, none of the three local offices visited had sufficiently analyzed its rejected client files to determine if the rejections were appropriate. However, the local office with the rejection rate of 36% planned to do such a review covering a short period of time.

During our office visits, we noted that one reason for differences in rejection rates could be that one office used a comparatively narrow definition for determining whether an individual possesses marketable skills. This may have increased rejection rates relative to other offices that, for example, support applicants to move from a history of unskilled, low-paying jobs to more sustainable employment.

Compliance with Program Requirements

Obtaining Receipts for Training Costs

The SD guidelines require that receipts be obtained for tuition, books, and big-ticket items, including those applicable to clients' contribution toward their training. In addition, the SD guidelines require that subsequent lump sum payments for these expenses should not be made until confirmation or receipts have been received for prior lump sum payments.

Two of the three local offices visited indicated that they were ensuring that receipts were obtained and expected Employment Training Consultants (ETCs) to be aware of when the next lump sum payment was due and to ensure that applicable receipts had been obtained before the next lump sum payments were made. The third office indicated that it had not actively attempted to follow these practices until fall 2007. All three offices noted that if clients failed to provide receipts and the local office exhausted its follow-up procedures to obtain receipts, the clients would be terminated and an overpayment established. Our review of files in each office yielded mixed results, with two doing a fairly good job of obtaining supporting receipts. However, receipts were sometimes obtained after lump sum payments had been made.

None of the three local offices visited was tracking its rate of compliance in collecting receipts; however, one office had transferred the responsibility to monitor client files to four other local offices, and one of those offices was recording its rate of compliance in collecting receipts. This office noted that in 62% of the cases it sampled, receipts for tuition, books, and other instructional costs were not on file and follow-up procedures had not been undertaken. The office indicated that it planned to continue with such tests until the rate of compliance was satisfactory.

Confirmation of Course Completion

Local offices are expected to confirm whether the client has completed the SD training course before closing a client file. However, the method of confirmation (whether verbally or by presenting supporting documentation, for example) is not prescribed. According to staff, the confirmation is intended to ensure that the client has completed the course but not that the client has successfully completed the course.

Our interviews and review of client files at local offices indicated that two of the offices were generally not confirming course completion. These findings were consistent with the results of internal file reviews conducted by these offices. The third office began to actively confirm course completion in fall 2007. With the exception of the one office that had obtained survey results on a sample of its clients, the local offices we visited did not have a sense of the rate at which their SD clients were completing their training.

Determination of Client Eligibility

Assessment of Client-provided Financial Information

Applicants requesting financial assistance in addition to EI benefits are required to complete a Budget Worksheet that requests financial information such as gross monthly household income, other anticipated sources of funding (such as savings, student loans, and investment income), and monthly expenses (including basic living expenses, costs incremental to training, and other costs). Financial information provided by clients is used for determining (among other things) the amount of financial assistance they receive, the expected applicant contribution to training, and, to some extent, eligibility for the SD program.

All three local offices visited indicated that no direction had been provided to them on how to assess the reasonableness of financial information provided by applicants and said that such training would be useful. We were also informed that in general, Employment Training Consultants (ETCs) do not ask for supporting documentation to verify a client's financial situation, and our review of client files confirmed this. Staff at one of the offices noted that it was their understanding that they were prohibited from requesting supporting documents to substantiate client-provided financial information, even though the SD guidelines state that "Programs Officers may ask clients to supply any pertinent substantiating documentation they deem necessary to assist in their assessment of Ontario SD applications when determining the amount of financial support which Ontario will provide."

Generally, the only financial information that was verified at all three offices was the client's EI benefits, which were identified as part of a check for program eligibility. However, at one office, a significant number of files we examined contained notes of discussions with clients regarding the reasonableness of at least some of the financial information they submitted. We observed several client files at each of the three local offices where financial information provided ought to have been questioned but there was no indication that it had been. In most cases, clients did not report any savings, even when their household income was significant. In one case, the gross monthly income was almost $10,000 but no savings were reported. Another client reported mortgage costs of almost $3,000 per month, but again, this did not appear to have been questioned.

Determination and Provision of Support Amounts

Basic Living Allowance

SD clients may be eligible to receive a basic living allowance while attending training. The SD guidelines state that while costs such as credit card payments, car loans, and recreation/entertainment costs should be taken into consideration when determining if an individual is in a financial position to attend training, they should not be considered in the amount of financial assistance that Ontario would contribute. The amount of the basic living allowance was capped at $423 per week. The combination of basic living allowance and EI benefits cannot exceed the maximum weekly EI rate.

We were told that the intent of the program guidelines is that the only costs eligible for funding with the basic living allowance are for basic living costs such as food, clothing, shelter, and utilities (water, heat, telephone, and hydro). However, because of an inconsistency in the Ministry's guidelines, this interpretation was not being followed consistently at the three local offices we visited. Consequently, their methods of determining the basic living allowance differed. Two offices indicated that, for low income clients, they generally based their decisions on gross household income without regard to expenses. The third office did not have a specific policy, and the determination of a client's basic living allowance was left to the ETC's discretion within the Ministry's guidelines for negotiating financial assistance.

In July 2007, the Ministry issued additional guidance that included instructions for negotiating assistance for low-income clients, but even these did not clearly communicate the intention that only basic living costs should be funded with a basic living allowance. Although offices we visited changed their practices in response to the additional guidance, we still found inconsistencies between them.

Our own observations from a review of client files at the three local offices revealed that, where clients received a basic living allowance, in a significant number of instances at two local offices and in the majority of instances at the other office, at least part what they received was for costs other than basic living costs. Although most of these pertained to applications approved before the additional guidance was provided in July 2007, some were approved after that date.

We also observed instances at all three local offices visited where the basic living allowance that was provided, although it did not exceed the client's basic living costs, appeared excessive on the basis of the client's financial situation.

Client Contributions to Training

SD clients are expected to contribute to the cost of their training as a demonstration of their commitment to the RTWAP. The expected contribution is based on their gross annualized household income and individual circumstances; however, an inability to contribute to training should not be a barrier to participation. Ministry guidelines indicate what sources of income to include.

All three local offices visited noted that they expected their ETCs to obtain contributions from clients consistent with the Ministry's guidelines. However, all three offices indicated that the Ministry had not provided them with a consistent means with which to calculate household income.

We found a significant number of cases where either a contribution consistent with the Ministry's recommended levels was not obtained or no contribution was obtained even though the client's financial circumstances suggested that a contribution was possible. We also found instances where greater contributions to training were obtained than the clients' incomes would typically require.

Reviews by Regions

Two of the three regions and related local offices visited had recently undertaken a review of client files to determine the degree of compliance with SD program guidelines. The reviews primarily focused on determining that the required documentation had been obtained and was on file. Adequacy of the documentation was assessed to a more limited extent. These reviews identified similar inconsistencies in practices and several instances of non-compliance with program guidelines.

One of these two regions had also surveyed each of its local offices to identify program delivery issues and to make recommendations to address them. This survey also revealed differences in how offices decide how much support to provide, resulting in different treatment of clients in similar circumstances. Another region had recently reviewed the way its local offices determine the amount of income support to provide to clients and noted a number of inconsistencies, in part because the Guidelines for Negotiating Financial Assistance were not widely accepted by the offices. The third region also was concerned about inconsistent determination of basic living allowances among offices and was developing a means to address this to ensure consistency.

Given the significance of the observations made by these regional reviews and surveys, there is clear value in repeating such reviews periodically to more effectively monitor program delivery.

RECOMMENDATION 7

To better ensure that support decisions are being made consistently and fairly, the Ministry of Training, Colleges and Universities should:

- establish a formal and objective complaints and appeals process for clients;
- track and compare the denial rate for Skills Development applications and investigate the reasons for any significant differences and whether corrective action is needed;
- clarify program guidelines for determining basic living allowances and client contributions to training, and provide training to staff on reviewing the reasonableness of financial information provided by clients and on applying the guidelines appropriately; and
- establish a consistent province-wide oversight process to periodically assess compliance with program requirements and identify opportunities for improvement or further training.

MINISTRY RESPONSE

We welcome the input as we move ahead with the transformation of Employment Ontario. Since the transfer of federal programs, there has been a focus on uninterrupted customer service delivery and business continuity.

Currently, the Ministry is in the process of implementing and transforming Employment Services and will next turn its attention to redesign of skills training. The Ministry will consider the measures noted in this recommendation while transforming Employment Ontario training services.

Monitoring Program Costs

Very early in the 2007/08 fiscal year, the Ministry realized that it had already committed a significant amount of its 2007/08 Employment Benefits and Support Measures (EBSM) budget, and 48% of its SD Program budget. In response, the Ministry issued additional guidance in July 2007 in an effort to reduce inconsistencies in program delivery and ensure the availability of the program throughout the fiscal year.

All three regions visited and two of the three local offices visited indicated that they faced funding pressures in the SD Program in the 2007/08 fiscal year. All three regions noted that they took action to reduce costs consistent with the refined ministry guidelines. Opinions varied between regions on whether the funding pressures resulted in the denial of applicants who were otherwise eligible, although the local offices visited indicated that they did not reject applicants they would otherwise approve because of funding constraints. We did note, however, that for one region, the number of new agreements dropped by 27% in the period August 2007 to March 2008 relative to the period January to July 2007, as shown in Figure 4.

Offices do track their training agreement activity and costs, using reports generated by the Ministry, but any analysis or comparison to other offices has been largely informal. Our own analysis of ministry reports, as presented in Figures 4–6, revealed that:

- The Ministry's actions in July 2007 appear to have had a significant impact on program costs incurred from August 2007 to March 2008. Provincially, the cost of new agreements entered into during that eight-month period was 25% less than the cost of agreements entered into from January 2007, when the province began administering the program, to July 2007 when the measures to reduce inconsistencies and manage program costs were introduced. The decline in the regions we visited ranged from 15% to 38% (Figure 5).

Figure 4: Number of New Skills Development Agreements, January 1, 2007–March 31, 2008

Source of data: Ministry of Training, Colleges and Universities

Region	Jan–Jul/07	Aug/07– Mar/08	% Change	15-month Totals	2007/08 Fiscal-year Totals
central	3,980	2,911	-27	6,891	4,999
eastern	1,053	981	-7	2,034	1,412
western	2,306	2,117	-8	4,423	3,357
Province	**8,279**	**7,420**	**-10**	**15,699**	**11,571**

Figure 5: Cost Commitment for New Skills Development Agreements, January 1, 2007–March 31, 2008

Source of data: Ministry of Training, Colleges and Universities

Region	Jan–Jul/07 ($ million)	Aug/07–Mar/08 ($ million)	% Change	15-month Totals ($ million)	2007/08 Fiscal-year Totals ($ million)
central	54.7	34.1	-38	88.8	63.4
eastern	14.3	9.5	-34	23.8	15.5
western	27.3	23.1	-15	50.4	38.2
Province	**108.1**	**81.5**	**-25**	**189.6**	**136.8**

Figure 6: Average Cost Commitment per New Skills Development Agreement, January 1, 2007–March 31, 2008

Source of data: Ministry of Training, Colleges and Universities

Region	Jan–Jul/07 ($)	Aug/07–Mar/08 ($)	% Change	15-month Totals ($)	2007/08 Fiscal-year Totals ($)
central	13,755	11,721	-15	12,896	12,676
eastern	13,585	9,647	-29	11,686	11,001
western	11,839	10,932	-8	11,405	11,381
Province	**13,059**	**10,981**	**-16**	**12,077**	**11,824**

- Part of the cost reductions came from signing 10% fewer agreements and therefore helping fewer clients (Figure 4). Clarifying guidance on client suitability may also have contributed to this reduction. But more of the reductions (16%) came from a reduction in the average cost of new agreements signed after July 2007. The average cost dropped from about $13,000 to $11,000 (Figure 6). Once again, the impact in the regions we visited varied significantly. For example, Central Region showed a 27% decline in new agreements and a 15% decline in the average cost of these agreements. Conversely, Eastern Region entered into only 7% fewer agreements after July 2007, but the average cost of these new agreements declined 29%.
- Another impact of the measures is that there was less of a difference among regions in the average cost of agreements entered into in the second period. The average costs of agreements among the regions visited ranged from approximately $11,800 to $13,800, a difference of about $2,000, in the first seven months of the program, but over the whole first 15 months the difference in costs between regional offices declined to about $1,500.

Although there will always be legitimate reasons for cost variances among regions and local offices, analyzing and investigating these differences on an ongoing basis will assist managers at all levels to more effectively monitor program costs. It may also help identify areas where inconsistencies in program administration are contributing to the difference and action is therefore required.

RECOMMENDATION 8

In order to ensure that approved training costs are reasonable and equitable and that the Skills Development Program is available throughout the year, the Ministry of Training, Colleges and Universities should routinely assess the reasons for significant differences in cost among regional and local offices and whether action is required to reduce these differences.

MINISTRY RESPONSE

We agree with the recommendation and have begun to move in this direction. In June 2008, the Ministry prepared interim guidelines on how to assess course comparisons and also introduced a cap on Skills Development agreements. Both of these actions have significantly reduced the cost variations between regions/local offices.

Assessment of Training Options and Costs

As part of the application process, applicants are expected to research the training institution and course they wish to attend to achieve their occupational goal. All three local offices visited stated that they required applicants to compare the course they wish to attend to at least two other similar courses at other training institutions where possible. This comparison was to include course content, costs, and graduates' success in finding jobs.

Our review of SD client files identified that at all three local offices visited, the course selection process was lacking in a significant number of cases. In many cases, the shortcoming was related to an incomplete comparison: either course content, costs, or graduate success in finding jobs were not identified and compared, or applicants did not compare the selected course to at least two other options where possible. In other cases, applicants selected a significantly more expensive course than the courses compared against, and there was no documentation noting that the reasonableness of the selection had been questioned before approval. In one case, the course cost approved was more than double the alternative presented.

Ministry staff at head office noted that it has not provided instructions to the regions and local offices on how to assess course comparisons, and specifically on what is a reasonable cost difference or how to assess content and graduate success in obtaining employment.

Expensive Training Interventions

Although they were not typical of the agreements we reviewed, we did observe cases at all three local offices visited where the labour market information in support of training was acceptable, but labour market information showed that clients could have been supported in less costly and shorter interventions than the long or expensive training courses they were approved for. Such approvals are not necessarily congruent with the Ministry's goal of returning clients to employment as quickly as possible, and the rationale for them was not well documented.

Examples include the following:

- In at least two instances, clients were approved for dental hygienist programs without considering less costly options such as dental assistant programs, even though in one instance total costs of the dental hygienist course were $28,000 compared to only about $12,000 for a dental assistant course. The dental hygienist course in this case was 72 weeks long, compared to 32 weeks for the dental assistant course. Total training costs for this intervention were about $57,000, of which approximately $53,000 was to be covered by the Ministry, including nearly $30,000 in living costs.

- A client was approved for a paralegal course without considering the option of legal assistant course, even though total cost of the paralegal course was $13,900 and it lasted 52 weeks, while the same training provider offered a legal assistant course costing $10,200 and lasting 36 weeks. Total training costs for this intervention were over $28,000, covered entirely by the Ministry, including approximately $14,500 in living costs.
- A client was approved for massage therapy training as a career change supported by a doctor's note indicating that the person could no longer work in the job previously held. The client had no previous background in massage therapy, which is one of the longest SD training programs, at 20 months, and costs $21,100 in tuition. Although the total commitment was more than $64,000, including living expenses, the actual cost was about $40,000 because the client could not complete the training.

However, these expensive interventions were approved before additional guidance was provided in July 2007 to help reduce training commitments. Furthermore, the Ministry has since imposed a cap of $28,000 on the cost of any training agreement, effective June 2008.

RECOMMENDATION 9

To better ensure that unemployed clients receive cost-effective training with good job prospects, the Ministry of Training, Colleges and Universities should:

- clarify expectations for assessing training options and costs and for documenting the results of that assessment before agreements are signed; and
- reinforce the expectation that files clearly indicate the rationale when more expensive training options are selected and approved.

MINISTRY RESPONSE

The Ministry will continue to refine the assessment process, which also will factor in client need and suitability. As this is a client-driven program, client needs and suitability for training are the key drivers in choosing a training course. Thus it is not ministry policy to only look at cost or course length.

The Ministry will continue to set expectations that client files clearly outline the rationale for the Skills Development course decision.

SELF-EMPLOYMENT BENEFIT PROGRAM

Through the Self-Employment Benefit (SEB) program, the Ministry provides financial assistance to eligible participants to help them start their own businesses. Participants include active EI claimants; individuals whose EI benefit period ended within the last 36 months; and individuals re-entering the labour force after having left it to care for newborn or newly adopted children and who were paid EI parental benefits within the last 60 months.

All participants in Ontario received the same flat rate of $423 per week (EI Part I, Part II, or both). Total funding for the program in the 2007/08 fiscal year was $64.3 million, excluding administrative costs. The number of clients for the 2007/08 fiscal year was approximately 3,800.

An application moves through the following steps before the Ministry approves a client for the program:

- The Ministry contracts a case manager at a local Employment Assistance Services (EAS) provider to assess the client and complete a Return to Work Action Plan (RTWAP).

- An SEB service provider prepares a letter supporting the client's application after subjecting the client's proposed business concept to an independent business review.
- Local ministry offices examine the client's application on the basis of the program's eligibility requirements, the letter of support for the business proposal, the impact on the local labour market, and the office's local business plan.

Local ministry offices have a contribution agreement with SEB service providers who provide technical and consultative expertise to assess client suitability and assist suitable participants in assessing their business concepts and in developing and implementing their business plans. Once the application is approved, ministry staff and the client sign a grant agreement that dictates the responsibilities of the client and the financial assistance to be provided by the Ministry. The SEB service provider delivers business training sessions and continues to assist the client to develop and carry out the business plan, while monitoring the client's business activities and reporting the results to the Ministry. The service provider must visit each place of business within the first three months of the business start date.

Ministry staff noted that they would not terminate a grant agreement because a business was not generating any revenue. Rather, a grant agreement is terminated if the client has violated the agreement. The Ministry may terminate an agreement with a participant who does not work the agreed-upon 35 hours per week to develop and implement the business plan; who does not follow directions given by the Ministry or the service provider; who does not have an acceptable business plan; who is later determined to be ineligible for the program; or who provides false or misleading information to the Ministry.

Four regions with a total of 64 local offices provide SEB services. Thirty-nine offices manage 60 contribution agreements with their service providers. We visited three local offices and reviewed three contribution agreements.

Program Delivery

While it has core requirements, SEB is a locally delivered program. Regional and local offices are therefore given great flexibility in determining how best to serve their diverse communities and labour markets. Most program delivery decisions are made at the local level.

We were informed that the Ministry's current relationship with the service providers derives from Service Canada, which administered the program before the Canada-Ontario LMDA transferred it to Ontario as of January 1, 2007. This model avoids an employer-employee relationship. Funding is based on core required activities and services, and the service providers themselves determine how those services are delivered.

An internal ministry report on the program noted that currently it has no standardized delivery model, results structure, client support components, or client suitability criteria. Our interviews at the regional and local ministry offices, as well as with service providers, support the report's comments. Beyond some standard required documents, procedures and practices are developed locally—for example, the service provider's accountability requirements vary in local contracts, resulting in inconsistent practices.

Participant Suitability

Ministry staff have noted that the RTWAP uses no standardized assessment tool to determine suitability and that the current SEB guidelines do not clearly define the criteria for eligible clients. As a result, criteria for SEB suitability are determined locally instead of being applied consistently across the province. The SEB guidelines were established by the federal government and transferred with the Canada-Ontario LMDA in 2007.

According to a recent internal ministry report, this inconsistency means that clients whose circumstances are identical but who apply in different ministry offices may have their approval for SEB decided differently. The report notes that this has led to client complaints that access to SEB is arbitrary and unfair. A consistent approach to client access would address these concerns.

The Ministry's regional and local offices and the service providers we visited had no formal complaints or appeals process for SEB applicants and clients. Nor did they keep logs of complaints and how they were resolved. We noted that few complaints were received at the ministry level, however, because the service provider was normally contacted first and in most cases resolved the dispute.

Adjusting Duration of Support to Encourage Success

The duration of a client's financial support is locally determined on the basis of delivery models and budget availability at the local ministry office. The maximum duration is 52 weeks (78 weeks for persons with disabilities). Two of the three local ministry offices we visited limit support to 40 weeks, and the third to 52 weeks. Staff opinion at the ministry offices was divided as to whether 40 weeks was too short a time for a business to become self-sufficient and whether 52 weeks funds for far too long businesses that will not succeed.

The recent internal ministry report noted that while most offices sign a single agreement with an approved client for 52 weeks, two offices approve their clients in phases. One office grants its clients an initial 13-week agreement, at the end of which it assesses whether the clients are on track with their business plans. If so, the clients are granted a 13-week extension. If not, the office works with the clients to identify adjustments in the business plans to put them back on track. This process is repeated at the six- and nine-month mark. The project officer feels that this system is a key component in ensuring that clients remain on track toward successfully starting their businesses.

At the second office, clients at the business concept proposal (four weeks) and business concept assessment (one week) stages are not eligible for income support. If successful with this portion of the program, clients are then approved for a 31-week agreement. At the end of the 31-week agreement, clients are further assessed to determine if additional support is required and whether an extension will directly impact the success of the business. If yes, an extension of up to 20 weeks may be granted.

RECOMMENDATION 10

To ensure that all clients applying to the Self-Employment Benefit program are treated equitably and comply fairly and equally with program requirements, the Ministry of Training, Colleges and Universities should:

- standardize the criteria used to determine client suitability; and
- assess the different policies that offices follow regarding the duration of the support provided and encourage wider adoption of policies that are effective in helping clients succeed.

MINISTRY RESPONSE

The Ministry will work toward more clearly assessing client program need and standardizing suitability criteria to ensure consistent access across the province. Program need and client suitability involve consideration of elements such as the lack of marketable skills, barriers to employment, demonstrated need for the program, and best chance at success. As well, the duration of support provided will be reviewed and best practices identified. However, the Ministry recognizes that regional differences in providing support and intervention for clients exist due to the complexity of this issue.

Contract Administration by Service Providers

Evidence of Progress Monitoring and Support Provided

The Ministry requires clients to prepare a written business plan within 10 weeks of starting their training. When a participant exceeds the 10-week period, the service provider must notify the Ministry and a decision is made whether to continue to provide financial assistance to the participant. Virtually all clients entered in the program have their business plans approved with considerable assistance from the service providers.

The internal policy at all three service providers we visited was to conduct monthly meetings with the client, either at the service provider's office or at the client's business, once the business plan was implemented. All three service providers also required clients to provide the business adviser with financial information before the monthly meeting.

Our review of client files found that all three service providers received the required monthly documentation from clients on a timely basis. However, in many cases, service providers kept inadequate documentation of the monthly meetings. One service provider had four client files that were missing all the monthly meeting notes throughout the intervention period. In addition to providing monthly financial information, two service providers also asked clients for a narrative that included the tasks accomplished for the month and marketing and promotional activities undertaken. The remaining service provider requested only a monthly profit and loss statement. Without asking clients to describe their activities, it is difficult for advisers to determine whether clients are dedicating sufficient and appropriate effort to their businesses while receiving support. The service provider agreed that having clients document their business activities would also help business advisers tailor their advice to the clients' specific needs.

At one service provider, we found that no client files reviewed were sufficiently detailed or had client meeting documentation indicating actions recommended and results. Even in the other providers' files we reviewed that contained detailed notes, there was no evidence that business advisers were developing action plans with their clients. At the two service providers that require clients to provide a monthly activity narrative, we found many examples where it was impossible to determine what was accomplished and what actions were planned.

As a result, it was often difficult to determine what advice and guidance clients had received, whether clients were working full-time on their businesses, and what action had been taken to increase sales. As well, it was evident that several clients' businesses were struggling, yet the files did not indicate what action was undertaken or advice given. For example:

- At an IT project management consultant service, total sales at the end of the program were nil, compared to forecast sales of $52,800.
- At a desktop publishing company providing services in Arabic and English, sales at the end of the program totalled $1,580, compared to forecast sales of $20,500.
- At a yoga and health service for pregnant women, total sales at the end of the program were $5,000, compared to forecast sales of $19,000.
- At an event planning and audio production business, 11 months into the program sales totalled $2,500, compared to forecast sales of $35,000.
- A private practice using hypnosis to resolve obstacles to health and happiness had made sales of $2,000 at the end of the program, compared to forecast sales of $17,000. The service provider was concerned about efforts by the participant and requested the client's activity logs. We reviewed the logs and concluded that they lacked the detail required to determine whether the client was spending

35 hours per week on the business. No further action had been taken by the service provider.

Staff at both the ministry offices and the service providers agreed on the need for improvements in documentation for both business advisers and clients.

Site Visits and Additional Support

Service providers are expected to conduct client site visits to assess the progress of their clients' business operations within the first three months of the business start date. These site visits allow service providers to confirm the information provided by clients in their monthly progress reports, to ensure that the business sites are legal, and to identify potential problems for the future of the business. We found evidence at only one service provider that site visits were being completed. The other two service providers told us that they were making site visits but had failed to document their client meetings as site visits.

We found cases at all service providers visited where clients were earning low revenues throughout the intervention. In these cases, we would expect to see more frequent meetings, especially when the clients were nearing the end of the program and would no longer receive financial support to help continue their businesses. We found no evidence in these cases that business advisers had held additional client meetings. In addition, the service providers had not prepared an exit strategy to help prepare clients leaving the program to continue their businesses without SEB financial aid.

We noted as a best practice that one service provider offered a two-day marketing course for clients who were experiencing difficulties in generating sales for their businesses. Held in a group setting, this course is designed to explore different approaches and develop a sales action plan. Clients are selected for the course by the business advisers on the basis of a review of client files after 36 weeks.

RECOMMENDATION 11

To better ensure that program participants are successful in starting and maintaining viable businesses and are complying with program requirements, the Ministry of Training, Colleges and Universities should:

- require service providers to monitor their clients more closely and consistently; and
- establish expectations for what should be documented in meetings held with participants, including the nature of any concerns raised and advice and support given.

MINISTRY RESPONSE

We agree with the recommendation. We acknowledge that improving monitoring may help service providers improve tracking of client progress so they can adjust support accordingly. The Ministry will explore the possibility of standardizing general monitoring requirements or will work towards helping service providers improve their monitoring practices.

Service providers are funded to provide technical and consultative expertise to participants. While the extent of meeting documentation may demonstrate the quality of service, the Ministry will continue to set out detailed expectations to service providers.

Ministry Oversight of Service Providers

Performance Information

Local offices track the progress of service providers toward meeting their contracted activity levels. The local offices we visited receive monthly activity reports from service providers that include information on the number of clients attending information sessions and number of applications received, and on the number of clients starting the program, completing training, completing business plans, and completing the program. Local offices have access to service providers' activity systems and to client files.

However, none of the regions visited have received information to date from the Ministry or local offices on the number of clients who become successfully self-employed. They also do not receive performance information on the service providers to determine whether they are meeting their contractual targets. Furthermore, none of the regions visited had undertaken a regional analysis to ascertain the degree to which the program is administered in accordance with provincial requirements and whether the program is administered consistently between local offices.

Also, none of the regions visited had surveyed clients across the region to inquire whether they were self-employed, or if clients were generally satisfied with the program. Local ministry offices visited do not survey their clients to determine whether they are still self-employed at specified intervals (for example, six months after completing the program), the number of hours they dedicate to their businesses each week, and average weekly gross sales. Rather, the Ministry's local offices determine through their contracts with the service providers the type and extent of client surveys to be conducted. Requirements varied for the offices visited but generally involved a 12-week follow-up survey that asked clients about the status of their business. After reviewing the 12-week follow-up survey results at one service provider, we determined that they are not meaningful for any performance analysis, nor was the service provider required to submit this information to the ministry office.

Service Provider Delivery Costs

None of the regions visited had attempted to identify reasons for significant differences in per client costs among service providers. We obtained a report from the Ministry that contained per client costs, and to verify its accuracy we requested the regions we visited to submit all SEB contracts. We found a number of discrepancies between the Ministry's report and the service providers' contracts. Figure 7 shows our calculation of costs based on actual contract numbers. It indicates that per client cost disparities were significant within each region: Central Region costs ranged from $1,347 per client to $5,923; costs in the Eastern Region ranged from $1,295 per client to $3,420; and Western Region costs ranged from $931 per client to $7,713.

Such significant differences should be reviewed and considered as service provider contracts come up for renewal.

Service Provider Contract Monitoring

To accommodate the transition of the SEB program from federal to provincial jurisdiction without any interruption in services provided, the Ministry has given local offices the authority to extend service provider contracts as long as there are no serious performance issues. Ministry staff are responsible for monitoring the contracts between the Ministry and service providers.

We reviewed the monitoring of the contracts of the three service providers we visited and noted that all three were being monitored, but at a very a high level. The focus was on ways to ensure that targets are met, such as for the number of individuals submitting applications and the number of applicants entering training. Ministry staff informed us that the policy is hands-off management because, under the federal direction of the program, there was to be no appearance of an employer-employee relationship. Service providers are contracted to perform specific functions, and

Figure 7: SEB Program Costs and Client Volumes

Source of data: Ministry of Training, Colleges and Universities

Region	Average Cost/Client (Low) ($)	Average Cost/Client (High) ($)	Client Volume Target
central	1,347	5,923	3,912
eastern	1,295	3,420	2,133
western	931	7,713	2,698

Note: figures are based on both new and carryover clients unless problems arise, the Ministry does not monitor individual client files.

RECOMMENDATION 12

To better ensure that service providers comply with their contracts and that program objectives are achieved in a cost-effective manner, the Ministry of Training, Colleges and Universities should:

- conduct periodic risk-based contract monitoring visits that focus on the quality of services provided as well as compliance with program requirements;
- develop and implement a more comprehensive and informative set of outcome-based performance measures, such as the number and percentage of clients who become successfully self-employed; and
- analyze service provider costs on a per client basis to identify the reasons for significant discrepancies in order to improve service efficiency and identify best practices for sharing among service providers and ministry offices.

MINISTRY RESPONSE

We agree with the recommendation. The guidelines on accountability requirements will continue to be communicated to local offices and service providers to ensure that results are reported.

To ensure that service providers are accountable for the quality of their services, the Ministry will work towards developing and implementing a more comprehensive set of outcome-based performance measures, including clearly defining self-employment.

The Ministry agrees in principle, however, that there may be differences in the cost per client for service provider contribution agreements. The Ministry will review and analyze service provider costs per client and the factors that contribute to these costs in order to improve service efficiency.

LITERACY AND BASIC SKILLS PROGRAM

The most recent *International Adult Literacy and Skills Survey*, conducted in 2003, found that Ontario's literacy level had remained the same since 1994, but that there had been a significant decline in the number of Ontarians functioning at the highest levels of literacy. Approximately 20% of Ontario's adults did not have the basic literacy skills to meet workplace and daily living requirements. Average literacy in Ontario is at the Canadian average.

The Literacy and Basic Skills (LBS) Program supports and funds some 200 literacy agencies, including not-for-profit community groups, school boards, and colleges, providing information and referral, assessment, training-plan development, intensive training, and follow-up services at some 285 sites across the province. Service delivery agencies are divided into four streams, depending on the client group being served: anglophone, francophone, deaf, and Native. Anglophone agencies serve the vast majority of clients. The Ministry provides approximately $55 million annually for service delivery and approximately $5 million for research and development. Annual operating funding has remained about the same since 2001/02. Therefore, the Ministry has reduced the number of target service hours to be delivered, from 6.7 million to 5.6 million—a decrease of approximately 16%. Some of this reduction may be the result of efforts by the Ministry to standardize and monitor the way service providers count their contact hours.

In its 2004 Budget, the government announced a $2 million Academic Upgrading component of the LBS Program to improve access to post-secondary education, training, employment, or independence. In 2007/08, funding for academic upgrading was increased to $15 million, which was provided primarily to community colleges.

The LBS Program focuses on adults who are unemployed, with special emphasis on those receiving social assistance. To be eligible for services, a person must be at least 19 years old, out of school, and assessed as lacking the literacy skills necessary to find and keep employment or meet everyday needs. Learners must be able to demonstrate progress by completing exercises related to their goals. Approximately 30% of those receiving LBS services were Ontario Works recipients.

Tracking and Reporting Participant Outcomes

Information about outcomes is essential for the Ministry to demonstrate whether the delivery agencies and the program overall are achieving the intended results and to link funding decisions to those results. LBS agencies are required to record every client's status at exit, a reason for leaving the program, and every learner's satisfaction rate, and to report these to the Ministry. The Ministry uses a performance measure for tracking outcomes for participants: the percentage who obtain employment or go on to further education or training upon completing or leaving the program. The benchmark is 70%. The benchmark for the learner satisfaction rate is 85%.

Using results reported by the agencies, the Ministry reported in 2006/07 and 2007/08 that the number of learners exiting was approximately 21,100 and 19,900 respectively, with a 67% positive outcome rate in both years. The learner satisfaction rate reported by the Ministry in 2006/07 and 2007/08 was 92% and 93% respectively, although we noted that in both years approximately 7,000 clients, or 33% of those who exited the program, had not been surveyed as required.

We reviewed the reported activity at a sample of sites for 2004/05 to 2006/07 to determine if any continually do not meet the ministry benchmark of 70% positive outcomes. Over the three-year period, 35% of these sites failed to achieve the 70% benchmark.

Figure 8 shows the information reported on the status of clients at exit for the past two fiscal years. Approximately 50% of exiting clients had not completed the program. However, the Ministry reported 67% of exiting clients to have a positive outcome of employment or further education or training. Therefore, clients can be reported as having a positive outcome without entering or completing the program. Reporting learner outcomes in conjunction with the status of clients at exit would better reflect the impact on clients of the length and type of service received. This in turn could help the Ministry evaluate the program's effectiveness for clients who complete the program, for those who leave before attaining their program goals, and for those who leave after an assessment.

Figure 8: Reasons for Leaving the LBS Program, 2006/07 and 2007/08 (% of Clients)

Source of data: Ministry of Training, Colleges and Universities

	2006/07	2007/08
LBS goals attained	46	50
left after assessment	14	11
agency-initiated	10	10
learner-initiated	30	29

Agencies are required to contact all learners who attained their LBS goals at three months after they leave the program in order to document their status. However, the Ministry does not report these results; therefore, it is difficult to determine if learners are making steady progress to employment or to further education or training.

As well, the Ministry was unable to track the length of time clients stayed in the program. We were informed that some clients require several years to complete their goals. Approximately 21,000 new learners enter the program annually, while a relatively constant number of approximately 19,500 carry over from previous years. A program requirement is that learners must progress at an acceptable rate to remain in the program. We identified one site where learners had spent over seven years in the LBS program. Data on length of participation in the program combined with other information, such as client profiles would help the Ministry identify trends useful for holding service providers accountable, implementing corrective action, and helping participants reach their goals within a reasonable time.

Program Funding

LBS Services

We recommended in our *2002 Annual Report* that the Ministry implement an equitable funding model that recognizes whether delivery agencies have been successful in helping their clients achieve positive outcomes. The Ministry undertook a funding review, starting in late 2002, which recognized that agencies delivering similar services to learners with similar needs received widely divergent levels of funding. An initial recommendation for making major shifts in funding across the province was rejected. It was decided to continue with the current approach and to make small shifts as funding became available when agencies closed.

A second option was then recommended that focused on efficiency, requiring agencies to provide a minimum level of service within an acceptable cost per hour range. The goal was to move all sites in each stream closer to the average level of funding per contact hour (the total time that an agency spends delivering services). The Ministry did not want to reduce the funding for any site but instead to increase the amount of service provided by agencies by encouraging them to be more cost-effective. For example, the Ministry identified the anglophone stream average as $9.50 per hour in 2005/06, and agencies were expected to move toward that target.

Since 2005/06, the Ministry has essentially followed a “status quo” approach that retains the inequities in the target hours and allocated funding that existed when the targets were established. As a result, the target cost per hour for similarly sized sites varied significantly in 2006/07. For example, we found that:

- Agency A was funded at $783,000 to provide 81,000 hours at a cost of $9.68 per hour, while Agency B was funded at $745,000 to provide 109,000 hours at a cost of $6.80 per hour.
- Agency C was funded at $225,000 to provide 25,780 hours at a cost of $8.76 per hour, while Agency D was funded at $143,000 to provide 25,400 hours at a cost of $5.63 per hour.
- Agency E was funded at $175,000 to provide 13,500 hours at a cost of $12.93 per hour, while Agency F was funded at $75,000 to provide 13,400 hours at a cost of $5.60 per hour.

We noted similar inequities in the academic upgrading funding that service providers received. We found target costs per hour that ranged from $5.90 to $13.54 per hour for the sites sampled.

Ministry policy is to link funding levels to performance and outputs, but funding is not responsive to changes in activity levels either in total or at individual agencies. Over the past three fiscal years, agencies have provided only about 88% of their approved contact hours, although they have spent 98% of their funding. In 2007/08, agencies planned to provide 5.63 million contact hours for the $56 million in funding they were allocated, but they actually provided 4.9 million hours for the $55 million they spent. Consequently, while the approved cost per contact hour was $9.95 on the basis of funding allocated, the actual cost per contract hour was $11.22, about 13% higher than planned.

The Ministry has stated that no funding adjustments will be made unless there is a significant discrepancy in the cost per contact hour. We reviewed the funding and reported activity for a sample of sites for 2005/06 and 2006/07. We noted that 40% of these sites provided only between 50% and 88% of the approved target contact hours, yet all of them spent virtually all the funds provided by the Ministry.

The Ministry has said that continuous improvement in performance management for LBS funding will increasingly incorporate agency-level measures of effectiveness, efficiency, and learner satisfaction. However, many agencies continually spend ministry funds but fail to meet their output targets.

RECOMMENDATION 13

To obtain adequate information for making appropriate and equitable funding decisions for its Literacy and Basic Skills (LBS) Program and to strengthen accountability, the Ministry of Training, Colleges and Universities should:

- report separately on outcomes for clients who exit after assessment without receiving any intensive LBS training, for those who exit the program before and on completion, and—three months after they exit the program—for learners who complete the program;
- track and report the length of time learners remain in the program and detect any sites that are carrying learners for unusually long periods; and
- implement a funding model that recognizes learner outcomes and better matches funding to service levels provided.

MINISTRY RESPONSE

The Ministry is currently developing the Employment Ontario Information System (EOIS). EOIS will replace the LBS Information Management System and improve data collection and reporting for the LBS Program. EOIS will enable the planned performance-based management framework envisioned for Employment Ontario program and service delivery, including that for LBS.

Chapter 3
Section
3.09

Ministry of Agriculture, Food and Rural Affairs

Food Safety

Background

Because of new food production and processing practices, emerging food-borne pathogens, and changing eating habits and demographics, there has been a greater awareness of food-borne illness in recent years. According to figures published by the World Health Organization, up to 30% of the populations of industrialized countries suffer from food-borne diseases every year. In Canada, on the basis of 10,000 to 30,000 reported cases of food-borne illness and some 30 deaths, it has been estimated that there were about 2 million cases of such illnesses each year. The symptoms can range from mild to severe flu-like symptoms to chronic illness, disability, and even death. Most people have had a food-borne illness, even though they may not have recognized it as such.

At various points in the food-supply chain, food can be contaminated by physical, chemical, or biological substances in the feed given to the animal; misuse of veterinary drugs; or poor farming practices. Food can also become contaminated at processing facilities, in stores and restaurants, or in the home through improper storage, food-handling practices, or preparation. Many cases of food poisoning can be attributed to the mishandling of food in the home. Consumer education in safe food handling is one of the most effective means of reducing food-borne illness.

In Canada, the regulatory responsibilities for food safety are shared among all levels of government. At the federal level, Health Canada establishes the policies and standards governing the safety and nutritional quality of all food sold in Canada, as well as carrying out surveillance of food-borne diseases. The Canadian Food Inspection Agency (CFIA) is responsible for regulating federally registered establishments, which are generally those that move products across national and provincial borders; when warranted, it issues food recalls.

At the provincial level in Ontario, the Ministry of Agriculture, Food and Rural Affairs (Ministry) administers a number of statutes that are intended to minimize the risks to food safety related to meat, dairy products, and foods of plant origin processed and sold in Ontario. In addition, the Ministry of Natural Resources is responsible for food safety as it pertains to fish and fish plants. The Ministry of Health and Long-Term Care sets food safety standards for food premises. It has delegated the inspection of retail stores, institutions, and restaurants to municipal public health units.

The difference between federal and provincial establishments is primarily one of scale and scope. Provincially licensed facilities may sell their products only within the boundaries of Ontario, whereas federally registered facilities may sell to other provinces and other countries.

With respect to meat, the Ministry is responsible for the licensing and inspection of abattoirs, and since 2005 its mandate has included freestanding meat processors. The latter are primarily wholesale establishments that do not slaughter animals but which process meat (for example, by cutting and packing) and sell their products, such as roasts, steaks, and ready-to-eat meat products, to restaurants, retailers, and so on. In 2006, provincially licensed abattoirs slaughtered more than 22 million animals (75% of which were chickens), which is about 10% of all animals slaughtered in Ontario. As of March 2008, there were about 160 abattoirs and 290 freestanding meat processors licensed by the Ministry.

The Ministry has delegated responsibility for administering and enforcing various quality and safety provisions for raw cow's milk under the *Milk Act* to the Dairy Farmers of Ontario (DFO). The DFO collects milk from the farms and sells it to processing plants, which then process it into fluid milk (that is, homogenized, 2%, and so on) and industrial milk and cream (which is used to manufacture other dairy products, such as butter, cheese, yogourt, and ice cream). The DFO is responsible for dairy farm inspection, and the Ministry is responsible for the licensing and inspection of dairy processing plants and wholesale distributors of the processed milk products. Retail distributors are the responsibility of municipal public health units. In 2007/08, there were about 120 dairy processing plants and 390 wholesale distributors licensed by the Ministry.

Fresh fruits and vegetables, maple syrup, honey, apple juice, cider, and minimally processed fruits and vegetables are classified as foods of plant origin. The Ministry operates under the *Farm Products Grades and Sales Act*, which was created primarily to regulate the grading, packaging, labelling, and advertising of farm products. Although the Act prohibits the sale of produce that is unfit for human consumption, in contrast to the legislation regulating meat and dairy products, it does not contain specific requirements for the licensing and inspection of foods of plant origin. It is estimated that there are about 10,700 producers of such foods in Ontario.

The Ministry's food safety programs are administered by its Food Safety and Environment Division. In 2007/08, the Division had about 280 full-time staff, and total expenditures on food safety were approximately $48 million. The expenditures were primarily for licensing and inspection, laboratory testing, and financial assistance programs for food safety initiatives.

Audit Objective and Scope

The objective of our audit was to assess whether the Ministry has adequate systems and procedures to manage food safety risks effectively and to ensure compliance with applicable legislation and policies.

Our audit followed the professional standards of the Canadian Institute of Chartered Accountants for assessing value for money and compliance. We set an objective for what we wanted to achieve in the audit and developed audit criteria that covered the key systems, policies, and procedures that should be in place and operating effectively. We discussed these criteria with senior management at the Ministry, who agreed to them. Finally, we designed and conducted tests and procedures to address our audit objective and criteria.

Our audit included researching food safety practices followed in other jurisdictions, interviewing ministry staff, and analyzing relevant inspection files and information. We also toured various facilities, including an abattoir, meat and food-processing plants, a milk producer, and a dairy processing plant, to get first-hand knowledge of the facilities and observe the Ministry's inspection process. In addition, we met with the Ontario Independent Meat Processors, the Dairy Farmers of Ontario, the Canadian Food Inspection Agency, Mr. Justice Roland Haines (who conducted an independent review of Ontario's meat regime in 2004), and University of Guelph professors for their input on how food safety can be improved.

We also reviewed the activities of the Ministry's Internal Audit Services Branch. Although the Branch had not conducted any recent audits in this area, it had evaluated the Ministry's progress in implementing Justice Haines's recommendations.

Summary

The Ministry has established many of the systems and procedures needed to minimize food safety risks. Nevertheless, we have identified a number of areas where improvements are required.

With respect to meat, the Ministry has established detailed food safety standards for provincially licensed abattoirs, which account for about 10% of all animals slaughtered in Ontario, and freestanding meat plants. However, in order to ensure the safety of meat and meat products sold to consumers, the Ministry needs to make sure that corrective action is taken when significant violations of its standards are found during licensing audits, so that only plants that are free of significant deficiencies are granted licenses to operate.

Specifically, a number of abattoirs and freestanding meat processors were found to have major and serious deficiencies during their licensing audits. Some plants that were deemed to have met minimum regulatory requirements had a deficiency rate for the standards examined of close to 30%, and even a number of highly rated plants had many deficiencies. Many of these deficiencies were repeat violations noted during previous audits.

In addition, microbial organisms (bacteria) and chemical substances in food are not readily detected through the Ministry's visual inspections of meat and of operators' facilities and equipment. Although the Ministry conducts laboratory tests to identify the presence of such substances, we noted overall that there had been a lack of systemic follow-up or corrective action to address adverse results from the laboratory tests. For example, a study of 48 newly licensed freestanding meat processors in the Greater Toronto Area in 2006 to determine the prevalence of pathogens and contamination on equipment and food-contact surfaces found high rates of bacteria, even for highly rated plants. Although the Ministry informed us that the adverse results did not pose an immediate public health risk, they could indicate a lapse in sanitation or a process failure that increases the risk of causing food-borne illness in consumers.

For dairy products, the Ministry has delegated the responsibility for administering and enforcing various quality and safety provisions of the legislation for cow's milk to the Dairy Farmers of Ontario (DFO). The Ministry relies on the DFO's mechanisms for inspecting all farms to ensure that the farm premises, surrounding areas, and milking equipment are sanitary. Laboratory tests are also performed routinely for bacterial content, somatic cell counts (an indicator of infection in the udder), and antibiotic residues, and there are severe financial penalties for non-compliance.

In addition, the Ministry has made significant progress in the inspection and testing of goat's milk, an area where we made a number of recommendations in our last audit in 2001.

However, we noted weaknesses in the Ministry's inspection of dairy processing plants and distributors. These included instances of licences being renewed before an inspection had been completed; only minimal inspections of dairy distributors; inconsistencies in the depth of inspections conducted; and inadequate documentation of the inspection results. Thus it was difficult to assess the overall compliance levels. In addition, results from the testing of fluid milk and cheese showed cases of bacteria counts that suggested that a number of processing plants might have sanitation problems.

For foods of plant origin, there are limited enforceable provincial food safety standards, because the legislation was created primarily to regulate grading, packaging, labelling, and advertising. Nevertheless, the Ministry, on its own initiative, has been collecting samples of fruits, vegetables, honey, and maple syrup and having them tested, primarily during the summer. In 2007/08, the Ministry conducted over 2,400 tests and found adverse results for 2% of the samples. The contaminants included lead in processed honey and maple syrup, chemical residues in fruits and vegetables exceeding Health Canada's maximum allowable limit, and microbial contaminants (listeria and salmonella) in minimally processed vegetables. When non-compliance was detected, the Ministry collected additional samples from the same producers for further testing; the non-compliance rate on those second samples has been about 20%. Since the Ministry has limited enforcement authority, it could not stop producers from continuing to sell their products to the public. It could only make educational visits to notify the producers and send the results to the CFIA for possible food recalls and hazard alerts. Our review of a sample of non-compliance results found 10 producers with repeated violations in the last five years; this suggests that the Ministry's educational efforts with those producers have not been successful.

Finally, we noted that to manage food safety risks better, the Ministry needs to develop a more comprehensive risk-based strategy to guide its priorities and activities.

A number of our observations had been noted in our previous audit of food safety in 2001. Although our follow-up in 2003 found that action had been taken, the Ministry has not been able to sustain a number of the improvements noted at that time.

OVERALL MINISTRY RESPONSE

The Ministry of Agriculture, Food and Rural Affairs welcomes the Auditor General's report on the Ministry's food safety programs.

Ontario has a strong food safety system and a recognized reputation for safe food. Everyone—from consumers to producers and food processors to all levels of government—has a part in this system.

The Ministry takes food safety seriously. That is why the Ministry continually reviews and enhances its food safety programs, using new scientific knowledge and technological advancements. Our system is strong. We can always make it stronger, and we thank the Auditor General for identifying specific areas for further improvement.

The Ministry has recently taken several steps to strengthen the food safety system, such as by:

- **passing the *Food Safety and Quality Act, 2001*;**
- **expanding provincial meat inspection to include non-slaughter plants;**
- **hiring more full-time meat inspectors; and**
- **continuing to support the Canadian Partnership for Consumer Food Safety Education in order to promote food safety practices to consumers.**

We accept the Auditor General's recommendations and will carefully review the report in order to guide the further evolution of Ontario's food safety strategy.

Detailed Audit Observations

The Ministry administers and enforces a number of statutes in order to minimize risks to food safety in various commodities that are produced, manufactured, or sold in Ontario. They include the following:

- *Food Safety and Quality Act, 2001*—Proclaimed in 2005 with the objective of modernizing the regulatory framework for meat inspection, this Act provides for the control and regulation of the quality and safety of food, agricultural or aquatic commodities, and agricultural inputs; and for the management of risks to food safety, such as food contamination; chemical, biological, and physical hazards in food; and food-borne illnesses.

The Act also specifies through regulation the licensing requirements and standards for production, premises, and operations; labelling and packaging; and the proper disposal of inedible material.

- *Dead Animal Disposal Act*—This Act regulates the disposal of certain animals that died from causes other than slaughter and sets out licensing requirements for persons engaged in the carcass disposal business.
- *Milk Act*—This Act provides for the control and regulation of the producing and marketing in Ontario of cow's and goat's milk, cream, and cheese; and of the quality of cow's and goat's milk, milk products, and fluid milk products in Ontario.
- *Farm Products Grades and Sales Act*—This Act regulates the inspecting, grading, packing, and marking of farm products, which include meat and meat products, fruits, vegetables, and honey.

To help achieve compliance with the applicable legislation and manage food safety risks, the Ministry has systems and procedures for the licensing, inspecting, and ongoing laboratory testing of the various food groups. Licensing is intended to ensure that facility operators are in compliance with legislative standards in the production of food products. Inspection is intended to ensure continuous compliance and that the food products produced meet food safety standards. Laboratory testing is aimed at detecting contaminants that may be in food products but that are not readily apparent through visual inspection. In addition to the licensing, inspection, and laboratory testing of food products, the Ministry also undertakes special projects to estimate the prevalence of specific hazards in designated commodities. The findings from special projects could in turn be used to target inspection, intervention, and further research efforts.

MEAT

The Ministry is responsible for the licensing of abattoirs in Ontario. In addition, the *Food Safety and Quality Act, 2001,* proclaimed in 2005, expanded the Ministry's mandate to include freestanding meat processors, which were previously under the jurisdiction of municipal health units. The Ministry's plan was to phase in the licensing of the freestanding meat processors, on the basis of their production volume, over three years beginning in 2005.

Abattoirs and freestanding meat processors must be licensed annually. The licence is to be issued after an audit has determined that the legislative requirements and ministry safety standards have been met, although freestanding meat processors were initially given a transition period of about six months from the issuing of a licence until the audit.

As of March 2008, there were about 160 abattoirs and 290 freestanding meat processors licensed by the Ministry, and by October 2008 the Ministry expected to have approximately 500 freestanding meat processors licensed.

In addition to undergoing a licensing audit, abattoirs must present all animals for an ante- and post-mortem inspection. An inspector, with the assistance of a veterinary inspector, has the authority to stop a slaughter, detain products, and issue compliance orders. The Ministry also conducts laboratory testing of healthy animals for drug residues, growth hormones, parasites, and so on; it also tests the safety of water and ice used in the slaughter process.

Freestanding meat processors are inspected periodically by the Ministry to help ensure that the plants continue to meet food safety requirements. As well, the Ministry tests the safety of water and ice used in food preparation.

The Ministry does not conduct regular microbial testing (testing for bacteria) on meat and meat products.

In early 2004, the government of Ontario asked Mr. Justice Roland J. Haines of the Superior Court of Justice to review the meat regulatory and inspection regimes in Ontario. The safety of meat in Ontario became a matter of public concern about such issues as bovine spongiform encephalopathy (BSE or mad cow disease) and allegations of illegal activities at certain provincial abattoirs. Consequently, Justice Haines's report, which was issued in July 2004, made 113 recommendations, of which the majority pertained to the Ministry, for improving meat safety in Ontario. According to the Ministry, it has implemented, or is in the process of implementing, many of the recommendations, including ones that pertain to stronger meat legislation, changes to the organizational structure of the Ministry, and the establishment of a number of food safety initiatives. However, our current audit found that in the licensing, inspection, and laboratory testing of abattoirs and freestanding meat processors, further improvements are needed. Our observations are described in the sections that follow.

Licensing of Abattoirs and Freestanding Meat Processors

For use in the licensing-audit process, the Ministry has established detailed compliance standards to assess whether abattoirs and freestanding meat processors are complying with the requirements of the legislation and to derive a plant rating. The Ministry rates each compliance standard as major, serious, or moderate. There are over 500 compliance standards, covering various aspects of the licencees' operations, such as the overall cleanliness of facilities and equipment, and training of personnel. The plant rating is based on a letter grade system, as shown in Figure 1.

At the completion of a licensing audit, a Corrective Action Plan meeting is to be held between the Ministry and the operator of the plant to discuss any deficiencies noted and the actions that need to be taken for the plant to be in compliance with the legislation. Meat inspectors and area managers are to verify that the corrective actions have been taken according to deadlines established by the Ministry. All ratings, deadlines, and follow-up actions are to be recorded in the Ministry's information system.

The Ministry engages seven auditors on a contract basis to conduct licensing audits. For the purpose of assigning a plant rating, the Ministry relies on the knowledge and judgment of the auditors, although there were a number of absolute requirements that have to be met.

We noted that many major and serious deficiencies were found during the licensing audit at a number of abattoirs and freestanding meat processors. About half of all abattoirs (162) and freestanding meat processors (80) were deficient in at least 10% of the compliance standards audited. As the examples in Figures 2 and 3 illustrate, some plants have been deficient in more than 30% of the compliance standards audited, and there were significant inconsistencies in deficiency rates for plants with the same rating.

Figure 1: Plant Ratings for Abattoirs and Freestanding Meat Processors, 2007/08

Source of data: Ministry of Agriculture, Food and Rural Affairs

	# of Abbatoirs	# of Freestanding Meat Processors
AAA—plant exceeds regulatory requirements	3	5
AA—plant generally exceeds regulatory requirements	40	17
A—plant meets regulatory requirements	94	44
B—plant meets minimum regulatory requirements	24	13
C—plant is not operating in accordance with legislative requirements and must make immediate improvements	1	1
Total	**162**	**80***

* As at March 31, 2008, 80 of the 290 licensed freestanding meat processors had been audited and designated a plant rating.

In addition, the Ministry's information system showed that a large number of abattoirs and freestanding meat processors had been found repeatedly to have the same major or serious deficiencies. For example, a 2007 audit of an A-rated freestanding meat processor noted 45 deficiencies, 21 of which had been reported in each of the last three audits.

The Ministry informed us that a number of deficiencies could have been corrected but not updated in the information system. It also acknowledged that insufficient details are kept in the current information system and that this makes it difficult to determine precisely which deficiencies are repeat violations and which have been corrected. On the

Figure 2: Range in Deficiency Rates at Abattoirs

Source of data: Ministry of Agriculture, Food and Rural Affairs

	# and Type of Deficiencies Found				# of Applicable Standards	Deficiency Rate[1] (%)
	Major	Serious	Moderate	Total		
Three Selected A-rated Abattoirs						
Plant 1 - highest[2]	36	25	2	**63**	252	25
Plant 2 - median[3]	16	9	0	**25**	261	10
Plant 3 - lowest[4]	3	2	0	**5**	384	1
Three Selected B-rated Abattoirs						
Plant 1 - highest[2]	74	45	1	**120**	335	36
Plant 2 - median[3]	27	19	1	**47**	330	14
Plant 3 - lowest[4]	7	6	0	**13**	316	4

1. The deficiency rate is calculated by dividing the total # of deficiencies by the # of applicable standards and multiplying by 100. The results have been rounded.
2. Among all the plants with this rating, this is the plant with the highest deficiency rate.
3. Among all the plants with this rating, this is the plant with the median deficiency rate.
4. Among all the plants with this rating, this is the plant with the lowest deficiency rate.

Figure 3: Range in Deficiency Rates at Freestanding Meat Processors

Source of data: Ministry of Agriculture, Food and Rural Affairs

	# and Type of Deficiencies Found				# of Applicable Standards	Deficiency Rate[1] (%)
	Major	Serious	Moderate	Total		
Three Selected A-rated Freestanding Meat Processors						
Plant 1 - highest[2]	35	21	2	**58**	179	32
Plant 2 - median[3]	8	7	3	**18**	181	10
Plant 3 - lowest[4]	5	1	0	**6**	189	3
Three Selected B-rated Freestanding Meat Processors						
Plant 1 - highest[2]	66	39	2	**107**	252	42
Plant 2 - median[3]	42	19	1	**62**	241	26
Plant 3 - lowest[4]	2	9	0	**11**	150	7

1. The deficiency rate is calculated by dividing the total # of deficiencies by the # of applicable standards and multiplying by 100. The results have been rounded.
2. Among all the plants with this rating, this is the plant with the highest deficiency rate.
3. Among all the plants with this rating, this is the plant with the median deficiency rate.
4. Among all the plants with this rating, this is the plant with the lowest deficiency rate.

basis of our review of the underlying documentation, we were not convinced that all plants had corrected their deficiencies, because the same plants continued to have a large number of deficiencies each year.

We also noted the following weaknesses that were specific to the licensing audit of freestanding meat processors:

- To identify the freestanding meat processors operating in Ontario, the Ministry in 2002 developed a preliminary database using information obtained from the various public health units, Canadian Food Inspection Agency, Ontario Independent Meat Processors, and commercial directories. Since then, however, the Ministry had not updated its database.
- As of March 2008, out of the 290 licensed freestanding meat processors, only 80 had been audited and rated. While resources were committed to do routine inspections on many of the remaining 210 unaudited meat processors on numerous occasions—with about half having been inspected more than 10 times—no resources have been committed to doing a full compliance audit to determine if these processors should be licensed and to derive a plant rating. The Ministry informed us that freestanding meat processors are now required to comply with more stringent standards than previously and that much of its inspectors' time had been devoted to helping meat processors to be in compliance with the food safety standards: hence the large number of inspections. We were concerned, however, that such a large number of inspections could also mean that many processors were still not in compliance.
- A number of staff we interviewed expressed concern about the new freestanding meat processors, including issues related to poor sanitation, improper construction materials (such as wood rather than stainless steel), the use of basements, lack of labelling, and the risk of ready-to-eat meat products.
- In the licensing audits of freestanding meat processors, the Ministry was using the compliance standards for abattoirs that also conduct further processing of meat. An internal review conducted by the Ministry pointed out that all standards pertaining only to slaughter plants should be removed and that additional compliance standards specific to freestanding meat processors and for processing ready-to-eat meat products should be adopted. The lack of a specific set of compliance standards for freestanding meat processors may result in inconsistencies in licensing and a less effective audit framework.

The above observations led us to question whether more stringent compliance with the Ministry's food safety compliance standards should be required before licences are granted.

RECOMMENDATION 1

To help ensure that licences are issued only to abattoirs and freestanding meat processors that have met its food safety standards, the Ministry of Agriculture, Food and Rural Affairs should:

- ensure that prompt corrective action is taken by the plant operators when significant deficiencies are found during a licensing audit, and if corrective action is not taken, to consider denying a licence;
- review its system of rating abattoirs and freestanding meat processors and provide clear criteria and guidelines so that they reflect more accurately and consistently the facilities' level of compliance; and
- update its information system promptly to facilitate auditing and licensing decisions.

In addition, the Ministry should:

- periodically update its database of freestanding meat processors so that all are subject to the required compliance audit;

- expedite the outstanding licensing audits for the large number of newly licensed freestanding meat processors;
- follow up on and address concerns raised by its staff with regard to any potential systemic problems; and
- develop compliance standards that are more specific to freestanding meat processors.

MINISTRY RESPONSE

The Ministry agrees with the recommendation.

We recognize that an ongoing review of the inspection, audit, and licensing systems is necessary to ensure that they are effective.

Currently, the Ministry asserts its authority to stop processing if the inspector believes that plant operating conditions have an immediate impact on food safety. The Ministry is committed to ensuring that operators take timely action when any deficiencies are identified.

The Ministry is currently reviewing the rating system for abattoirs and freestanding meat processors. The objective of the review is to achieve a consistent and transparent audit process for auditors and plant operators. Changes to the audit process are being implemented for the next audit cycle. We are strongly committed to regularly reviewing and updating all training materials; the updating of the Meat Inspection Policies and Procedures Manual is expected to be completed in fall 2008.

The Ministry acknowledges that its current information-management system does not adequately reflect deficiencies that have been identified in plants and have been corrected. Work has already begun to replace the current information management and information technology system with a new system, which is scheduled to be launched in 2009. In the meantime, improvements are being made to the current system to provide better information and a more efficient process for licence renewals.

The Ministry has recently updated the inventory of freestanding meat processors, and we will update this inventory on a continuing basis. We are committed to reviewing our approach to initial audits of newly licensed freestanding meat processors.

We have made important changes to the Meat Inspection Program, including improvements to the management structure and an increase in the number of staff meetings. With these changes, opportunities to identify and address staff concerns have already been enhanced.

The Ministry is developing compliance standards that are more specific to freestanding meat processors and that will be implemented beginning in 2009.

Abattoirs: Inspection and Laboratory Testing

Inspections

At any point in the inspection process, an inspector, with the assistance of a veterinary inspector, can condemn portions of a carcass or a whole carcass for observable diseases and conditions that have implications for food safety and consumer protection. If the inspector has reason to believe that the carcass is contaminated or otherwise unsafe for human consumption, he or she may send tissues from the suspect animal for laboratory testing.

During our audit, we found that there were large differences in the condemn rates for certain animal classes amongst abattoirs. For example, in 2007/08 for abattoirs with a slaughter volume greater than 10,000 animals, the condemn rate for barbeque hogs ranged from 142 to 778 per 10,000 slaughtered and the condemn rate for chickens ranged from 62 to 397 per 10,000 slaughtered. There could be a number of reasons for the differences in condemnation rates. For example, a consistently high rate could be due to some abattoirs or buyers purchasing cheaper and therefore more high-risk animals from auction barns. It could also indicate problems with the animals at the farm or during transport. Conversely, a consistently low rate could suggest weaknesses in the inspection process. The Ministry did not have a formal process for analyzing these variations to determine whether the large differences were justified.

Laboratory Testing

The Ministry conducts ongoing monitoring of meat through random laboratory testing of healthy animals for residues of veterinary drugs (including antibiotics), growth hormones, parasites, and parasiticides, and so on. The majority of laboratory tests are for residues of veterinary drugs because these chemicals have been associated with adverse health effects in humans, including allergic reactions or toxic effects.

In addition, the meat regulation contains specifications for the use of potable water and water disinfectants by both abattoirs and freestanding meat processors. Potable water must, at a minimum, meet the drinking water quality standards prescribed under "Ontario Drinking Water Standards" in the *Safe Drinking Water Act, 2002*. It is ministry policy to verify through sampling and an examination of records that only potable water and ice are used in meat preparation.

In 2007/08, the Ministry had nine monitoring projects and tested approximately 5,200 animals (80% of them for drug residues) and 7,000 water and ice samples; adverse results were found in 620 and 90 cases respectively. We had the following observations:

- The Ministry's methodology suggests that 300 samples per year for three consecutive years are needed to provide a statistically valid representation of the animals presented for slaughter. However, a number of the tests conducted as part of the various projects did not meet the sampling standard. For instance, in the last three years none of the animal classes tested for abnormal muscle growth (which results from the use of certain chemical compounds in veterinary medicine) had the suggested sample size of 300. Therefore, the Ministry could not accurately determine whether residues in certain animal classes posed a serious enough problem to warrant additional action by the Ministry.
- In cases where enough data are available, the Ministry had not taken further action to address the problems identified. For instance, since 2005/06, a high number of adverse results were shown for a number of animal classes from the Ministry's antibiotic residue-testing project, but no corrective action has yet been taken.
- Although the Ministry has the authority to condemn carcasses with adverse results in individual cases, it does not have the legislative authority to deal effectively with repeat violations. For example, laboratory testing in 2007 found 51 instances of drug residues exceeding the maximum allowable limit set by Health Canada. Of these results, 19 were for calves slaughtered at the same abattoir, and of those 19, 10 were from the same livestock dealer. The same dealer has had non-compliance results for the past three years. The Ministry had been submitting the results to the CFIA but had not done any systematic follow-up on its own.
- With regard to the water and ice testing, for both abattoirs and freestanding meat processors, the adverse results for ice testing are significantly higher (5%) than for water (1%). For water testing, most of the adverse results (more than 90%) were from about 30% of the abattoirs, which were using non-municipal water sources.

In addition to the continual laboratory testing at abattoirs, over the years the Ministry had conducted various special projects on microbial and chemical contaminants in meat. While the studies were a good initiative, we noted cases of inadequate follow-up on findings from the studies. For example, various microbial studies of raw beef, pork, and chicken from 1999 to 2002 had found a high prevalence of bacteria on the carcasses. However, the Ministry had not followed up on those studies or made changes to its inspection and testing process to address the concerns and reduce the potential risks to food safety.

RECOMMENDATION 2

To help ensure the safety of food produced at abattoirs, the Ministry of Agriculture, Food and Rural Affairs should:

- analyze why some plants were showing an abnormally high or low incidence of carcass condemnation rates and follow up to ensure that inspectors are following the inspection criteria consistently; and
- ensure that laboratory tests performed are in accordance with the sampling methodology, and when the laboratory tests indicate a potential widespread or systemic problem, make suitable changes to its inspection and testing programs.

MINISTRY RESPONSE

The Ministry agrees with the recommendation.

The Ministry will analyze condemnation rate data on a quarterly basis to identify trends. If the analysis shows that adjustments to inspection practices are needed, we will take appropriate action.

The Ministry continually reviews its policies and programs to incorporate new scientific knowledge and new technologies so as to better direct laboratory testing. In 2008, we began developing a formal, co-ordinated approach to prioritizing laboratory testing. This approach will be implemented in 2009 and will allow the highest food safety risks, including systemic issues, to be addressed first.

A meat plant operator must take immediate action on any adverse results from water or ice tests. The Ministry is analyzing the data from several years of this testing. If the data trends indicate that changes to the water and ice testing program are necessary, we are committed to making them.

Freestanding Meat Processors: Inspection and Laboratory Testing

Inspections

The Ministry conducts periodic inspections of freestanding meat processors to help ensure that the plants and the processing of meat products are in continuous compliance with food safety standards. Once the plant is licensed, inspections are to be conducted weekly at first; thereafter, the frequency of future inspections depends upon the audit rating and the deficiencies noted.

With respect to the inspections conducted on the 80 meat processors that have been audited to date, there was little correlation between a processor's rating and the frequency of inspections. For example, in 2007/08, several A- to AAA-rated meat processors with fewer than 10 deficiencies noted during the licensing audit were inspected almost 40 times, whereas three B-rated processors with more than 70 deficiencies each were inspected only 20 times.

The results of inspections are to be recorded on a manual checklist and then entered in the Ministry's information system. We noted that the checklist consists of only a single page of about 40 inspection tasks (which are only a small portion of all applicable standards) and a Yes and No answer for each task. As a result, the inspectors provided few details. Given the imprecise description of the tasks and the lack of details provided by the inspectors regarding any deficiencies noted, it would be difficult to understand fully the nature and significance of those deficiencies. There were also few details available about the results of prior inspections and how long the deficiencies had been outstanding.

Laboratory Testing

Other than testing water and ice used in food preparation, as mentioned previously, the Ministry does not normally conduct regular laboratory tests at freestanding meat processors or on their products. However, it did conduct a special project in early 2006 at 48 newly licensed freestanding meat processors in the Greater Toronto Area. Microbial testing was done to determine the presence of pathogens as well as potential contamination on food-contact surfaces, including the inside of mixers, meat grinders, knives, saw blades, cutting tables, and packaging equipment. The study found:

- a high prevalence rate for E. coli (56%) and coliforms (84%) on equipment and food-contact surfaces even at A-rated plants and a significant correlation between the rates and the number of employees at the meat processors tested; and
- prevalence rates of enterobacteriaceae (a large family of bacteria) of 72% at A-rated plants and 68% at AA-rated plants, respectively; this suggests that even these highly rated plants might need to improve their cleaning and sanitation procedures.

A high count of microbial indicators does not in itself constitute an immediate public health risk. Nevertheless, the presence in significant numbers could indicate a lapse in sanitation or a process failure that increases the risk of causing food-borne illness to individual consumers. The data on the prevalence of indicator organisms from the study were intended to provide an objective point of reference that would help freestanding meat processors to review their sanitation procedures and ensure that they were meeting their obligation to prevent and reduce contamination. However, the Ministry's own inspection programs had not been adjusted in light of the results of this study, although it had been more than two years since the significant test results were found.

RECOMMENDATION 3

To help ensure the safety of food products produced by freestanding meat processors, the Ministry of Agriculture, Food and Rural Affairs should:

- ensure that ongoing inspections focus on plants that represent the highest risk;
- improve its reporting of inspection results so that better information is available when conducting future inspections of plants with significant deficiencies; and
- in light of the findings from its 2006 microbial laboratory testing, take more timely and effective action to correct both systemic issues and food safety concerns about individual processors.

MINISTRY RESPONSE

The Ministry agrees with the recommendation.

To further enhance its inspection programs, a food safety risk framework is in development. The framework, expected to be completed in 2009, will allow regular and consistent identification of specific risks and evaluation of the likelihood and impact of these risks on food safety. The framework will allow the Ministry to direct its inspection resources to plants that present a higher risk. The reporting of plant inspections will also be improved with the launching of the new information management system.

Regular microbial testing of higher-risk processed meats from provincially licensed plants is currently being implemented. Information from a scientific study was used to design the program. In the future, the results from the microbial testing program will be considered when we are making improvements to the inspection process.

Any testing programs conducted by the Ministry must include a formal protocol to address any adverse findings that may have an impact on food safety. Adverse findings result in action by the Ministry, which may include immediate reporting to the agency with the legislative authority to take further action, including the Canadian Food Inspection Agency or the Ontario Ministry of Health and Long-Term Care.

Disposal of Dead Animals

The *Dead Animal Disposal Act* (Act) and regulations prohibit the use of deadstock (animals that have died from a cause other than slaughter) for human consumption and govern the storage and disposal of deadstock on farms, as well as the collection, transportation, processing, and disposal of deadstock once it is removed from the owner's property. The Act applies to cattle, horses, goats, sheep and swine.

The current legislation was enacted in 1968, and the Ministry acknowledged that, although there have been revisions since then, the legislation is out of date in several respects:

- The legislation does not cover poultry, which has increasingly become a major meat product, nor a number of species, such as deer and elk, that are now being farmed.
- Since the emergence of BSE (mad cow disease), the market for rendered products has diminished and the industry has been looking for new methods of processing, use, and final disposal of deadstock. The legislation must be broad enough to allow new recycling methods while ensuring environmentally safe disposal.
- The Act does not give many enforcement tools to inspectors. As a result, it is usually enforced only as a result of complaints.

The Ministry informed us that it is drafting proposed regulations that would add more animals to the list of regulated species, provide for additional disposal options on farms, and incorporate environmental standards designed to protect human and animal health and minimize damage to the environment. We will assess the progress of that updating in our follow-up audit in two years' time.

There are four types of licences that can be issued under the Act: broker, collector, receiving plant, and rendering plant. We reviewed the licensing process and made the following observations:

- Collectors that transport deadstock in Ontario are required to obtain a valid marker for transporting deadstock. A new federal feed ban regulation, which came into effect in July 2007, prohibits the use of certain cattle tissues and organs to prevent the transmission of BSE through animal feeds. In regard to this new regulation, livestock producers that normally used the service of a deadstock collector now have the option of transporting their own deadstock to a receiver. As a result, there has been a significant increase in the number of applications for ministry markers. In 2007, over 250 transport markers were issued to livestock producers, in addition to the 132 collector markers issued to deadstock collectors.
- The Ministry carries out inspections to ensure that vehicles are properly constructed to prevent spillage of liquids and are thoroughly cleaned and disinfected before leaving the plant premises and that dead animals are covered during transport and not transported with live animals. We found that, although about half the deadstock collector vehicles were inspected in 2007, none of the vehicles for which transport markers had been issued to livestock producers were inspected.
- Before issuing licences for rendering plants, the Ministry relies on the CFIA to inspect the plants. To ensure compliance with legislation, the Ministry is to review the CFIA's inspection reports and follow up on any areas not covered by federal inspectors. We noted, however, that in 2007, the Ministry did not request

inspection results from the CFIA before issuing licences.

The above observations regarding the need for vehicles transporting deadstock to be inspected, and the review of and follow-up on CFIA inspection were made in our last audit of food safety in 2001. Although our follow-up in 2003 found that some progress had been made, the Ministry has not been able to sustain its earlier improvements.

RECOMMENDATION 4

To ensure that deadstock operators store, collect, process, and dispose of deadstock in accordance with the legislation, the Ministry of Agriculture, Food and Rural Affairs should:

- expand its inspection of vehicles licensed to carry deadstock to include those of livestock producers; and
- obtain and review inspection reports from the Canadian Food Inspection Agency (CFIA) and follow up on areas not covered by federal inspectors.

MINISTRY RESPONSE

The Ministry acknowledges the recommendation.

Since 2007, farmers have required a federal permit in order to move cattle carcasses off farms. To avoid duplication of licensing and inspection, the Ministry is proposing to eliminate the need for provincial licences or markers for farmers.

If this proposal is accepted, it would allow the Ministry to focus its efforts on higher-risk carcass transportation. Commercial deadstock collectors that pick up carcasses from farms would continue to be licensed by the Ministry. Regulatory requirements for all vehicles transporting deadstock would still exist, and we would continue to respond to any complaints concerning improperly transported deadstock.

To improve provincial oversight of rendering plants, the Ministry now conducts its own inspections of all provincially licensed rendering plants regardless of the CFIA inspection status.

DAIRY

The *Milk Act* and regulations deal with the quality and safety of Ontario milk (both cow's and goat's milk) and milk products. Since 1998, the Ministry has delegated the responsibility for administering and enforcing various quality and safety provisions of the legislation for cow's milk to the Dairy Farmers of Ontario (DFO).

The DFO is responsible for inspecting cow farm premises, overseeing the grading of the milk, collecting milk samples for laboratory testing, and overseeing the transporting of the milk to dairy processing plants. The Ministry is responsible for the inspection of dairy-goat farms and for the licensing and inspection of dairy processing plants and distributors (wholesalers) of processed fluid milk products. Retail distributors are the responsibility of municipal public health units.

Cow's Milk

The DFO has mechanisms for inspecting all farm premises to ensure that the farm premises, milking equipment, and surrounding areas are sanitary. In addition, laboratory tests for bacterial content, somatic cell counts (an indicator of infection in the udder), and antibiotic residues are performed routinely, and there are severe financial penalties for non-compliance.

The DFO submits to the Ministry a monthly summarized report of its activities, such as quantity of milk produced, number of farm inspections, results of laboratory tests, number of rejected trucks, penalties assigned, and so on. However, the Ministry had not analyzed or assessed the adequacy or reliability of the information. For example, the report does not contain information on the types of non-compliance issues encountered during the inspections of farms, milk trucks, or graders.

Although the Ministry is given an oversight role by its agreement with the DFO, it has not established a monitoring regime to assess the DFO's performance. In addition, the agreement also allows the Ministry to conduct an independent review of the DFO. The last such review, conducted in October 2002, was to evaluate the overall effectiveness of the Raw Milk Quality Program. Although the 2002 results were generally positive, it has been six years since that review and the Ministry has not conducted a follow-up or subsequent review since that time.

RECOMMENDATION 5

To ensure that the transfer of responsibility for the safety of cow's milk to the Dairy Farmers of Ontario (DFO) continues to operate effectively, the Ministry of Agriculture, Food and Rural Affairs should establish an oversight process and periodically review the activities of the DFO.

MINISTRY RESPONSE

The Ministry agrees with the recommendation.

The Ministry has already taken action on this recommendation by creating a new position in the Dairy Food Safety Program. This Raw Milk Quality Program Coordinator is currently developing written guidelines to oversee the responsibilities delegated to the DFO.

Over the next year, the Ministry will develop performance measures and a schedule to review regularly the activities of the DFO.

Goat's Milk

Under the *Milk Act*, the Ministry is responsible for the inspection and testing of raw goat's milk. Routine on-farm inspections are conducted annually at approximately 220 dairy goat farms in the province. Farms are then classified as Grade A, Conditional Grade A, or Non-Grade A depending on the extent to which food safety standards are met.

In our 2001 audit of food safety, we made recommendations for improvements to the inspection regime for goat's milk. Since our audit, we have noted that the Ministry has made significant progress:

- A more complete and up-to-date list of goat milk producers is now being maintained.
- The Ministry has hired full-time inspectors to enhance the inspection process, and deficiencies found during the inspections were followed up on promptly.
- A considerably larger number of milk samples were tested monthly than at the time of the 2001 audit, and overall the test results were satisfactory.

Dairy Processing Plants and Distributors

All dairy processing plants and fluid milk distributors must be licensed annually. In 2007/08, there were about 120 dairy processing plants and 390 distributors operating in Ontario.

As part of the licensing process, the Ministry conducts inspections of these establishments. In the case of dairy processing plants that are also involved in the export market, the Ministry relies on the CFIA for the inspection although it retains the overall responsibility for licensing. Of the approximately 120 dairy processing plants, about 30 are inspected by the Ministry and the rest by the CFIA.

For distributors, new applicants must be inspected before a licence is issued; in the case of renewals, inspections are to be based on risk and the history of the licence holder.

Inspection of Dairy Processing Plants

For the majority of dairy processing plants, the emphasis of the inspection is on equipment, operations, and processing. Some federally licensed plants have instituted a CFIA-approved production and process control system. CFIA inspection of those plants would then focus on the control measures used by the operators to reduce or eliminate food safety hazards.

Deficiencies detected during ministry inspections are classified into one of four categories according to their seriousness and the time allowed for corrective action to be taken—from immediately to up to one year. The operator is required to send a Corrective Action Plan to the Ministry, describing how the operator intends to correct the deficiencies. A follow-up inspection is to be conducted to assess the corrective action taken by the operator.

We noted the following:

- In a number of cases, the Ministry renewed licenses before an inspection had been completed or before receiving an inspection report from the CFIA.
- Since the results of inspections have not been compiled and are available only individually, it is difficult to assess overall compliance levels and compare inspection results.
- The extent of inspections was at the discretion of individual inspectors. We noted that some plants were inspected more thoroughly than others.
- Of the inspections that required a follow-up, we found a number of cases where there was no evidence that a follow-up was conducted or the follow-ups were not done promptly.
- For audits by the CFIA that focused on a plant's production and process controls, the Ministry did not have a copy of the plant's control measures program; without this information it would be difficult for the Ministry to determine the seriousness of any deficiencies noted.

Inspection of Dairy Distributors

As with dairy processing plants, we found areas where improvements were needed in the licensing inspection of fluid milk distributors:

- According to the Ministry's information system, there were 387 active licenses, yet only 21 establishments had been inspected in 2007/08. No documented risk assessment or justification was available for the small number of inspections.
- Our examination of the actual inspection forms completed by the inspectors showed various instances where the data, including basic data, such as the number of depots and product types, were incomplete.
- There were also cases where a follow-up inspection—to ensure that deficiencies noted had been corrected—was not conducted.

Some of those issues were noted during our 2001 audit of the Ministry. At the time, the Ministry informed us that a regulatory review of the fluid milk distribution program would be carried out with improvements to follow, but the review was not conducted.

Laboratory Testing

Dairy processing plants produce a variety of products, such as fluid milk (1%, 2%, skim, and so on), cheese, ice cream, butter, and other cultured products. Under the *Milk Act* and regulations, there are no food safety standards for finished dairy products and no requirement to test those products. Much of the laboratory testing conducted was related to the quality of the product rather than food safety.

Although there is no requirement to test finished products, in 2005/06, the Ministry introduced annual microbial testing on some finished products, using the standards established from a study conducted in 2004. The tests counted three microbial indicators: aerobic (which indicate the sanitary quality of the product), coliform (which indicate a failure in overall sanitation of a plant), and psychrotrophs (which indicate the number of bacteria able to grow at refrigeration temperatures) counts.

The testing of fluid milk showed that bacteria counts significantly exceeded the standard estimated from the study and that a significant number of plants had potential sanitation issues. For example, in 2007/08, when the Ministry conducted over 450 aerobic tests on products from 19 plants, it found that more than half of the plants exceeded the limits. The Ministry then conducted additional tests and concluded, on the basis of the samples tested, that there was no immediate health threat.

Similarly, the Ministry in 2007/08 tested cheese and cheese products from 13 out of 56 cheese plants. Four plants were found to have bacteria counts that exceeded test limits, but no high-risk strains of bacteria were detected upon further testing.

Although the results may not necessarily indicate an immediate health risk, they show that some operators were having difficulty in maintaining adequate sanitation standards in their plants.

RECOMMENDATION 6

To help ensure that licences are issued only to dairy processing plants and distributors that have met the food safety standards established by legislation, the Ministry of Agriculture, Food and Rural Affairs should:

- before issuing a licence, ensure that the establishment is inspected and that any significant deficiencies, including those found by the Canadian Food Inspection Agency (CFIA), are corrected;
- ensure that results of inspections are properly documented; and
- follow up on laboratory tests that show unsatisfactory results.

In addition, the Ministry should ensure that its information system provides adequate information for effective monitoring of dairy processing plants and distributors.

MINISTRY RESPONSE

The Ministry agrees with the recommendation.

All dairy plants in Ontario must be provincially licensed. Plants that sell and distribute products outside of Ontario must also be federally registered. Some dairy plants hold both a provincial licence and federal registration.

The Ministry will work more effectively with the CFIA to ensure that all dairy plants are inspected, that deficiencies are corrected in a timely manner, and that we receive reports before licences are issued.

The Ministry uses its information management system to make certain that inspection results are properly documented. As previously noted, we will begin implementing a new information management system in 2009. All ministry and CFIA inspection reports will be entered into this new system to ensure that the information is correctly and promptly tracked. In the meantime, improvements are being made to the current system to provide better information and a more efficient process for tracking.

Appropriate risk-based procedures for achieving proper follow-up on adverse laboratory test results will be developed.

FOODS OF PLANT ORIGIN

Many fruits and vegetables are eaten raw where no "kill step" has been applied to reduce the likelihood of illness due to microbial contaminants. Microbial contamination could occur during harvesting, packing, or transportation. The possible avenues of contamination include untreated manure used as a fertilizer, contaminated water, animals, and unclean containers, tools, and vehicles. In addition to microbial contaminants, there are other chemical contaminants that could be hazardous and have negative long-term health implications.

The Ministry's Foods of Plant Origin program operates under the *Farm Products Grades and Sales Act*, which was created primarily to regulate grading, packaging, labelling, and advertising. Although the Act prohibits the sale of produce that is unfit for human consumption, unlike for meat and dairy, it does not require that fruit and vegetable producers be licensed or inspected. Thus, the Ministry's efforts over the past few years have been on conducting special studies on selected commodities.

In addition, although it is not required to do so under the legislation, the Ministry has taken the initiative to collect samples, primarily during the summer, of fruits and vegetables from retailers, farmers' markets, and roadside stands and have them analyzed for chemical residues, microbial contaminants, heavy metals, and so on. Since there are no licensing requirements, the Ministry does not have an up-to-date list of all Ontario producers. The Ministry also informed us that because Ontario's produce industry is so large, it would be costly to sample at the level necessary to characterize accurately the state of the industry. Therefore, no assumptions about the prevalence of contaminants in these foods can be made on the basis of the data collected.

The samples for the Ministry's laboratory testing project comprised approximately 1,200 producers out of an estimate of about 10,700 in Ontario. According to the Ministry, the objective of the program was not to inspect or determine the prevalence of contaminants but rather to monitor and educate producers. Our review of the test results noted the following:

- In 2007/08, the Ministry conducted over 2,400 tests and found 2% of the samples to be in non-compliance. Examples of non-compliance include lead in processed honey and maple syrup, chemicals exceeding Health Canada's food safety standards in fresh fruits and vegetables, and microbial contaminants (listeria and salmonella) in minimally processed vegetables.
- Where non-compliance was detected, the Ministry collected additional samples for testing. The additional tests conducted over the last five years found an average non-compliance rate of over 20%.

When the test results show non-compliance, the Ministry notifies the producer or grower of the results of the tests and arranges to visit the farm or operation again. Spray records are examined, for example, to try to determine the cause of the non-compliance; the Ministry also advises the grower or producer on how to prevent recurrences.

Although the Ministry has informed producers when tests revealed non-compliance, our review of a sample of non-compliance results found 10 producers with repeated violations in the last five years. Since the Ministry has limited authority to take stronger action against the producers, it could not stop those producers from continuing to sell their products to the public.

Rather, the Ministry's practice is to submit to the CFIA non-compliant results involving microbial contamination, lead in honey and maple syrup, and chemical violations exceeding Health Canada maximum allowable levels by 100-fold. The CFIA has the authority to issue food recalls and notify local health units, which may in turn issue health hazard alerts. Chemical violations below 100–fold were not submitted to CFIA because the Ministry deemed them not to pose immediate health risks, even though they might have cumulative effects over time.

RECOMMENDATION 7

In order to ensure that foods of plant origin sold to the public are safe from contamination, the Ministry of Agriculture, Food and Rural Affairs should:

- work with the province and stakeholders to determine ways to strengthen the legislation to give the Ministry the authority to protect consumers better; and
- work with stakeholder groups to develop a more comprehensive inventory of producers, consider options for cost-effective monitoring of food safety in this area, and promote good agricultural practices.

MINISTRY RESPONSE

The Ministry agrees with the recommendation.

The Ministry will continue to provide leadership and support to the concept of developing and strengthening a national approach to food safety for these products by working with federal and other provincial food safety agencies.

The Ministry will continue to work closely with industry partners to develop and deliver information and tools such as Good Agricultural Practices (GAPs) to address on-farm food safety issues.

CO-ORDINATION WITH CANADIAN FOOD INSPECTION AGENCY

The success of the food safety system depends on close partnerships and clear lines of authority and accountability between federal, provincial, and municipal health authorities, the industry, and consumers. In the course of our audit, as is evident throughout this report, we noted numerous situations where a close partnership and good co-ordination are crucial to the safety of food delivered to consumers.

The arrangement between the Ministry and the CFIA is governed by a memorandum of understanding between the various federal and provincial ministries and agencies that have responsibilities for food safety, and by an agreement on the inspection of dairy processing plants. The purpose of the latter agreement, which was reached in 1992, was to streamline the inspection process and minimize duplication of inspection work.

On the basis of our discussions with the Ministry and the CFIA and our observations described throughout this report, we believe that the opportunity exists to review and make improvements to the current arrangements. Possible improvements could include defining more clearly each party's expectations with respect to all food commodities and activities such as inspections, information sharing, and food recalls.

RECOMMENDATION 8

To be more effective and efficient in ensuring that our food is safe, the Ministry of Agriculture, Food and Rural Affairs should work with the Canadian Food Inspection Agency (CFIA) to clarify responsibilities and to co-ordinate better the monitoring and enforcement of food safety.

MINISTRY RESPONSE

The Ministry agrees with the recommendation.

It is critical for all levels of government to work together to strengthen and enhance the food safety system. Each level of government has a distinct role to play in the food safety system, as dictated by various legislative responsibilities.

The Ministry will work with the CFIA on the issues raised by the Auditor General concerning inspections, information sharing, and food recalls.

We continue to refine and enhance our working relationship with the CFIA. Examples of recent collaboration include:

- a memorandum of understanding to clarify the processes related to compliance and enforcement in food safety, describing organizational responsibilities as well as an agreed-upon process for sharing information in situations where the authority to do so exists; and
- a signed and implemented food-borne-illness response protocol between our Ministry, the CFIA, and the ministries of Health and Long-Term Care and Natural Resources.

FOOD SAFETY STRATEGY

An effective food safety system uses the best combination of prevention, detection, and mitigation to minimize food-borne hazards. In this regard, it is important that the Ministry have a strategic plan that clearly sets out its priorities and how it intends to achieve its goals. A comprehensive strategic plan should include several key components: strategic directions and priorities, an assessment of risks and issues facing the Ministry, current programs and activities, strategies and options to manage the risks and issues identified, resources and funding required, and the relevant performance measures.

According to the Ministry's 2007/08 Results-Based Plan, its food safety strategy includes research, an examination and updating of standards and regulations, inspection, and educational programs. The Ministry has also produced a separate strategic plan for food safety that includes information about and discussions of its goals and objectives, program statistics, performance measures, and work plans for its various branches. However, neither the Results-based Plan nor the strategic plan in its current form included all the essential components of a strategic plan, particularly a formal assessment of risks and the appropriate measures and options for controlling food safety risks. As well, the performance measures reported were primarily for workloads, rather than the Ministry's effectiveness in reducing food-borne illness.

An example will serve to illustrate the need for more comprehensive risk assessment in allocating ministry resources. Currently, the key to the Ministry's food safety approach is inspection, which is required by legislation in many cases. In addition, the Ministry carries out regular laboratory testing and special studies on contamination of food. However, it conducts limited microbial testing on a number of food groups. The World Health Organization and other organizations have reported that diseases caused by bacteria, which are not readily detectable by visual inspection, are among the greatest threats to food safety. In addition, although the Ministry does do other testing (for example, for drug residues) and special projects, the nature and extent of such programs were largely driven by fixed funding.

Another important food safety strategy is consumer awareness and education because many cases of food-borne diseases have been attributed to the mishandling of food in the home. In the United Kingdom, for example, a 2003 report by the National Audit Office on improving service delivery by the Food Standards Agency stressed the need to provide clear information and advice to consumer groups, and to tailor its advice to those for whom it is most relevant. In Ontario, the task of educating consumers is primarily that of the Ministry of Health and Long-Term Care and municipal public health units. Nevertheless, the Ministry of Agriculture, Food and Rural Affairs has valuable expertise within its areas of responsibilities. We noted, however, that the Ministry did not have a formal strategy for working proactively with its partners on educating consumers.

RECOMMENDATION 9

To ensure that its food safety programs are more effective and efficient, the Ministry of Agriculture, Food and Rural Affairs should develop a more comprehensive strategic plan that encompasses assessment of risks to food safety, appropriate measures for controlling the risks, and relevant indicators of its effectiveness in ensuring food safety. Given that other jurisdictions are increasingly focusing on the importance of educating the public on how to enhance food safety in the home, the Ministry should work more proactively with its partners on this aspect of food safety in its strategic plan.

MINISTRY RESPONSE

The Ministry accepts the recommendation.

In keeping with a strengthened ministry-level focus on strategic planning, project management, and performance-measurement systems and processes, the Food Safety and Environment Division will complete a review of its Strategic Plan in fall 2008. Divisions and branches will be updating plans annually. We will work to achieve an integrated ministry plan to focus future efforts in the food safety area. We have identified two key elements that will be developed first, namely:

- strengthening our risk-based approach in areas such as laboratory testing; and
- improving performance measures.

Under the authority of the Ministry of Health and Long-Term Care, the local boards of health are responsible for the public's awareness of food-borne illnesses and safe food-handling practices. Our ministry continues to be committed to working closely with government partners on initiatives to enhance the public's understanding of food safety in the home through initiatives such as our membership in the Canadian Partnership for Consumer Food Safety Education. In addition, we continue to provide ongoing educational support to food industry stakeholders.

FOOD SAFETY SURVEILLANCE

The Ministry's surveillance of food safety comprises laboratory testing programs in which commodities, product classes, and hazards (that is, chemical residues and microbial pathogens) are assessed; and special projects or baseline studies aimed at estimating the prevalence of specific hazards in designated commodities.

In addition to our observations earlier in this report regarding laboratory testing of specified food products, we reviewed the Ministry's overall planning and delivery programs and noted the following areas for improvement. Similar findings were also identified by an internal ministry review conducted in 2006:

- No formal criteria were used to identify potential contaminants for either the ongoing or special projects, nor was there a process for prioritizing projects.
- There was little formal co-ordination among ministry branches for compiling, sharing, or analyzing food surveillance data. Better co-ordination could help ensure that ministry resources are allocated in the best way to manage food safety risks and could result in more effective surveillance efforts.

In addition to the data received through its food safety surveillance, the Ministry also has access to results of tests on food-producing animals conducted by the Animal Health Laboratory at the University of Guelph, where samples are submitted primarily by private veterinarians. The Ministry told us that the data from these tests are used mainly for animal health surveillance. We note, however, that these test results—because they are from food-producing animals—could reveal threats to food safety, and yet the Ministry has not analyzed these test results for systemic concerns that would warrant changes to its food safety surveillance testing and inspections.

RECOMMENDATION 10

To help ensure that its food surveillance is more effective and to link scientific research more closely to its regulatory programs, the Ministry of Agriculture, Food and Rural Affairs should:

- develop a more formal process for deciding on and prioritizing its surveillance projects;
- improve the sharing of surveillance information and co-ordination among ministry branches; and
- analyze the test results from samples submitted by private veterinarians for potential systemic food hazards.

MINISTRY RESPONSE

The Ministry agrees with the recommendation.

The Ministry is currently reviewing surveillance activities. The report is scheduled for completion in late 2008 with the objectives of:

- reviewing the Ministry's current food safety surveillance system and activities, and determining their strengths, weaknesses, and effectiveness;
- recommending an optimal surveillance system that provides appropriate information for decision-makers to use as a foundation; and
- recommending short-, medium-, and long-term plans to implement improvements to the system.

The Animal Health and Welfare Branch is now an integral part of the Food Safety and Environment Division. We will seek opportunities to use animal health surveillance data from samples submitted by private veterinarians to the Animal Health Laboratory to improve food safety programs.

FOOD MANAGEMENT PRACTICES

Traditionally, food safety hazards have been managed through inspections and the testing of end products. This approach alone has not been adequate because of the large number of people involved between farm and table and because there are many causes of food-borne illness. More emphasis is now being placed on prevention, a science-based approach, and good management practices.

One approach to good management is what is known as Hazard Analysis Critical Control Points (HACCP), which is an internationally recognized, science-based, preventative approach. HACCP systems require individual operators to assess possible food safety hazards in their operation, and then to use control measures to reduce or eliminate their occurrence. The CFIA and many countries, including Australia, the European Union, New Zealand, and the U.S., have adopted HACCP in the food-processing sector or have begun to do so.

The Ministry has developed a voluntary approach to HACCP that it considered feasible and practical for Ontario's small and medium-sized facilities to implement, but the benefits of its implementation are still to be evaluated. As of July 2008, the Ministry's approach has been implemented by 33 facilities, which include provincially licensed abattoirs and freestanding meat processors, fruit and vegetable producers, and producers of various other food commodities.

In addition, in 2006 various federally funded financial assistance programs were offered to operators in order to increase their awareness and knowledge of the risks to food safety associated with food processing and to promote good manufacturing practices. Since the programs were established in 2006, approximately $20 million of federal funding has been allocated to provincial financial assistance programs. As of March 31, 2008, expenditures on financial assistance totalled $12 million. However, the Ministry has not yet developed criteria and measures to evaluate the success of these programs.

RECOMMENDATION 11

To complement inspection programs and prevent or reduce hazards throughout the entire food-supply chain, the Ministry of Agriculture, Food and Rural Affairs should:

- work more actively with producers and processors to facilitate industry adoption of good management practices such as the Hazard Analysis Critical Control Points system; and
- measure the effectiveness of its programs for financially assisting operators.

MINISTRY RESPONSE

The Ministry agrees with the recommendation.

We are committed to enhancing our relationships with industry partners to increase the adoption of best management practices throughout the value chain (farmers to food processing), including Good Manufacturing Practices, Hazard Analysis Critical Control Points (HACCP), and Good Agricultural Practices (GAPs). We place specific emphasis on delivering GAPs to primary producers.

We are developing a program evaluation process that will be completed in late 2008 for the grant programs. An external consultant will evaluate the meat industry funding programs. New food safety and traceability program guidelines are being developed to include performance measures, service guidelines, application processes, and improved client communications, and are to be in place in spring 2009.

Chapter 3

Ministry of Revenue

Section 3.10 Gasoline, Diesel-fuel, and Tobacco Tax

Background

The Ontario Ministry of Revenue (Ministry) collects the province's commodity taxes on tobacco, gasoline, and diesel fuel under the authority of the *Tobacco Tax Act*, *Gasoline Tax Act*, and *Fuel Tax Act* respectively.

In the 2007/08 fiscal year, taxes collected under these three acts totalled $4.3 billion, as detailed in Figure 1, and accounted for about 6.2% of the province's total taxation revenue from all sources that year.

Figure 1: Commodity Tax Revenues for the Year Ended March 31, 2008 ($ million)

Source of data: Ministry of Revenue

tobacco tax	1,133.11
gasoline tax	2,438.17
diesel fuel tax	736.70
Total	**4,307.98**

As was the case at the time of our last audit in 2001, the Ministry has for reasons of administrative efficiency designated manufacturers and certain large wholesalers as tax collectors, responsible for collecting and remitting to the Ministry the applicable amount of commodity tax. These collectors generally charge tax on sales to organizations or persons who don't have collector status, and they also pay and remit tax on products they themselves consume. As a result, the vast majority of commodity taxes are collected and remitted to the province by relatively few collectors:

- 97% of gasoline tax is remitted by 21 collectors;
- 96% of diesel tax is remitted by 12 collectors; and
- 97% of tobacco tax is remitted by 56 collectors.

Sales between designated collectors are generally tax-exempt.

Designated collectors, importers, exporters, and transporters of tobacco, gasoline, and diesel must file monthly returns—in a form required by the Minister—that include:

- information about production, imports, and exports of the applicable commodity;
- listings that detail tax-exempt sales to, and purchases from, other designated collectors; and
- listings that detail the total amount of taxable sales.

Properly completed returns provide the Ministry with the underlying information it needs in order to establish the correct amount of taxes to be paid.

Audit Objective and Scope

The objective of our audit was to assess whether the Ministry had adequate and cost-effective policies and procedures in place to ensure that the correct amount of tobacco, gasoline, and diesel-fuel tax is collected and paid to the province in accordance with the law.

The scope of our audit work included a review and analysis of relevant ministry files and administrative policies and procedures, as well as interviews with appropriate ministry staff. We also talked to, and obtained information from, representatives of the Canadian Convenience Stores Association, the OPP, the RCMP, the Canadian Border Services Agency, and a major cigarette manufacturer.

Our work emphasized the policies and procedures in place with respect to gasoline-, diesel-, and tobacco-tax collections processed in the 2007/08 fiscal year. Although the *Gasoline Tax* and *Fuel Tax* acts also mandate the taxation of propane, aviation fuel, and diesel used by railroads, we did not audit these areas because they account for only a small portion of total tax revenues and corresponding administrative activities.

Our audit followed the professional standards of the Canadian Institute for Chartered Accountants for assessing value for money and compliance. We set an objective for what we wanted to achieve in the audit and developed audit criteria that covered the key systems, policies, and procedures that should be in place and operating effectively. We discussed these criteria with senior management at the Ministry, who agreed to them. Finally, we designed and conducted tests and procedures to address our audit objective and criteria.

We also reviewed the Ministry's Internal Audit Service's more recent audit reports and the supporting working papers for the processing of tax receipts by the Client Accounts and Services branch, and the Revenue Collection branch's write-off of accounts receivable as well as its review of the tax-roll registration process, and the posting of security requirements. Given the relevance and timeliness of their work, we were able to exclude these areas from our audit.

Summary

It is our view that the tax gap, which is the difference between the amount of tax that should be collected and the amount that is collected, has increased significantly with respect to tobacco tax since our 2001 audit of tobacco-tax collection. In fact, we believe that the tax gap with respect to tobacco could well be in the $500 million range in 2006/07, on the basis of tobacco tax-rate increases and estimated consumption.

In response to our 2001 audit, the Ministry of Finance, which was then responsible for these commodity taxes, acknowledged that changes were needed to its policies and procedures, especially its supporting information technology systems, if it was to achieve full accountability for all gasoline, diesel fuel, and tobacco products at all stages of production and distribution and thus minimize tax leakage. However, many of these required changes have not been implemented. As well, the substantial increases to the tobacco tax rate and the major price increases for gasoline and diesel since our last audit have actually increased the incentive to evade taxes. As a result, it remains our view that the Ministry's current policies, procedures, and information technology systems are still inadequate to ensure that the correct amount of tobacco, gasoline, and diesel taxes is being declared and paid in accordance with the requirements of the law.

To address these risks, the Ministry needs to:

- identify and pursue policy options designed to mitigate incentives for the smuggling and sale of illegal tobacco products in order to reduce a possible $500-million-a-year tax gap in 2006/07—options to be considered should include changes to the *Tobacco Tax Act* to increase sanctions for non-compliance, and more targeted enforcement;

- work more closely with the Canadian Border Services Agency, the RCMP, and the OPP to more effectively reduce or eliminate the importation of illegal cigarettes into Ontario;
- more effectively ensure that purchases of tax-free cigarettes on First Nations reserves do not exceed the tobacco allocation assigned to each reserve;
- develop better policies and procedures to account for tobacco, gasoline, and diesel products at the various stages of the production and distribution process; and
- ensure that all required tobacco, gasoline, and diesel tax returns are properly completed, and thoroughly assess a sample of returns for completeness and accuracy.

It also continues to be our view that the Ministry needs to significantly strengthen its commodity-tax audit function and focus its inspection activities better to help ensure that undeclared taxes are identified and assessed.

Given the current staff resource levels assigned to most aspects of commodity-tax collection and the complexity of the gasoline and diesel returns in particular, significant improvements to the underlying information-technology systems are essential. Although we made a similar observation in our *2001 Annual Report*, the necessary technology improvements have still not been implemented.

OVERALL MINISTRY RESPONSE

Since the last audit of gasoline, fuel, and tobacco tax conducted in 2001, the Ministry has introduced a number of legislative amendments for registration and reporting, and increased fines and sanctions for non-compliance. The Ministry has increased the resources assigned to investigation and inspection, and continues to work with other jurisdictions to determine best practices related to commodity-tax administration. The Ministry is also in the process of implementing revised systems and administrative practices suggested by the Auditor General.

The size of the tobacco-tax gap cannot be known with any degree of certainty. There are many estimates, and they, of course, are determined by the sources of information used and the assumptions made in the calculation. What is key is that the problem is complex, is increasing, and requires the attention of Ontario and its intra- and inter-jurisdictional partners.

We would like to thank the Auditor General for the current recommendations, which will further assist the Ministry in making improvements to its administration of gasoline, fuel, and tobacco tax programs.

Detailed Audit Observations

OVERVIEW OF PROGRAM

The Ministry's Motor Fuels and Tobacco Tax Branch had overall responsibility for the administration and collection of tobacco, gasoline, and diesel-fuel taxes up to the end of the 2004/05 fiscal year. A ministry restructuring the following year eliminated the Motor Fuels and Tobacco Tax Branch and all other tax statute branches. Responsibility for the administration and collection of all provincial taxes is now the responsibility of the following eight functional branches:

- *Client Accounts and Services:* establishes and maintains tax rolls, processes tax returns, reviews and approves requests for refunds, and provides other client services;
- *Tax Compliance:* performs audits and inspections;
- *Tax Appeals:* administers the objection and appeals process;
- *Tax Advisory Services:* provides interpretations and advanced rulings, and assists in

the development of legislation and ministry policies and procedures;

- *Strategic Management Services:* provides planning, research, and change-management support, and serves as the lead on management of information-technology initiatives;
- *Special Investigations:* obtains intelligence on the underground economy, performs investigations, and maintains contact with other enforcement agencies, such as the OPP;
- *Revenue Collection:* deals with non-compliant and delinquent taxpayers, and recommends timely write-off of uncollectible amounts; and
- *Relationship Management and Business Development:* serves as the Ministry's primary point of contact for dealing with other governments and organizations.

As noted earlier, more than 95% of tobacco, gasoline, and diesel taxes are collected by a relatively small number of manufacturers and wholesalers called designated collectors.

TOBACCO TAXES

At the conclusion of our audit in early 2008, cigarettes and cut tobacco were taxed at 12.35 cents per cigarette or per gram of cut tobacco, while cigars were taxed at 56.6% of a predetermined taxable cost.

The tax rate on cigarettes and cut tobacco, in particular, have increased dramatically since 1999, as detailed in Figure 2.

These rate increases were intended to provide additional tax revenue and meet certain other public-policy objectives, including a reduction in smoking rates. However, they also provided a powerful incentive for the manufacturing and smuggling into Ontario of contraband and counterfeit tobacco products. As a result, it is all the more important that the Ministry have sufficiently strong policies and procedures to ensure that, as much as possible, the correct tax on all tobacco consumption is declared and paid.

Figure 2: Tax Rate on Cigarettes and Cut Tobacco, 1999–2006 (cents/cigarette and cents/gram)

Source of data: Ministry of Revenue

Effective Date	Tobacco Tax Rate
November 6, 1999	2.65
April 6, 2001	3.65
August 1, 2001	3.65
November 2, 2001	4.45
June 18, 2002	8.60
November 25, 2003	9.85
May 19, 2004	11.10
January 19, 2005	11.725
February 1, 2006	12.35

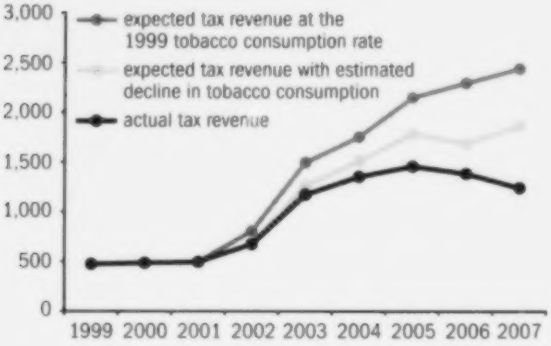
TAX GAP

The increased incentive for tobacco smuggling notwithstanding, we found that the Ministry's systems and procedures for collecting tobacco taxes have not significantly changed or improved since the time of our last audit in 2001. We believe there is little question that the consumption of untaxed tobacco products and the resultant tax gap have both increased in recent years. For instance, if tobacco consumption since 1999 had remained constant, given a current tax rate that is about 4.7 times as high as in 1999, one would expect 2006/07 tobacco tax revenue to be $2.2 billion rather than the $1.2 billion actually collected. However, it is generally accepted that tobacco consumption has decreased in recent years. In its annual Canadian Tobacco Use Monitoring Surveys, Health Canada estimated that overall tobacco consumption in Ontario decreased by approximately 27% between 1999 and 2007. Even assuming a 27% decrease in consumption since 1999, the significant tax increases on tobacco during that same period should have produced a more than tripling of annual tobacco tax revenue, from about $500 million in 1999 to as much as $1.7 billion in 2007.

A comparison of *actual* annual tobacco tax revenue to *expected tax* revenue, based on both constant consumption and a cumulative decrease in consumption totalling 27% for the years 1999 through to 2007, is detailed in Figure 3. Assuming a 27% consumption decrease since 2001, the potential tax gap for 2007 alone could be in the $500 million range.

Figure 3: Actual vs. Expected Tobacco Revenue, 1999–2007 ($ million)

Prepared by the Office of the Auditor General of Ontario



RECOMMENDATION 1

In order to reduce the amount of tobacco tax revenue being forgone, the Ministry of Revenue should assess its policy options for mitigating the incentives for the smuggling and sale of illegal tobacco. Options could include increased sanctions for non-compliance with, and more targeted enforcement of, provisions of the *Tobacco Tax Act*.

[illegible]

We agree with the recommendation. The Ministry will continue to work with its partner ministries and with other jurisdictions to mitigate the incentives for the smuggling and sale of illegal tobacco.

The Ministry has implemented a number of new enforcement provisions of the *Tobacco Tax Act*. For example, to ensure that tobacco products sold at the retail level in Ontario are tax-paid, the Ministry initiated the Tobacco Retailer Inspection Program in March 2006 to conduct on-site inspections of tobacco stocks at retail outlets. Ministry inspectors currently target an average of 600 retail inspections each month. The targeted enforcement program is working. In the second year of operation, there has been a 50% reduction in the number of instances where contraband cigarettes are discovered.

With respect to the noted tobacco tax gap, the actual size of the gap cannot be known with any degree of certainty. If all illegal cigarettes were eliminated, it would be difficult to quantify the number of consumers who would simply not pay the current cost of legal cigarettes and would cease smoking. Therefore, the Ministry would not recover tax revenue equal to the estimated gap. The potential level of non-compliance is of concern to the Ministry, and the complexity of this issue will require a combination of policy, administrative, and enforcement activities.

BORDER SECURITY AND CONTROL OF THE ILLEGAL TOBACCO TRADE

Border security and control of the illegal tobacco trade is primarily a joint responsibility of the Canadian Border Services Agency (CBSA), the RCMP, and the OPP, in conjunction with the Ministry's Special Investigations Branch. In interviews with representatives of all four organizations, it was clear they generally understood the magnitude and source of the illegal tobacco trade. However, all acknowledged limitations, including lack of resources and other supports to deal effectively with the issue. With respect to the OPP, for example, these limitations included:

- insufficient manpower and equipment;
- the fact that convictions under the *Tobacco Tax Act* do not result in a criminal record, leaving convicted individuals free to cross the border again;

- jurisdictional issues between the various police services, including pursuit policies that limit apprehensions; and
- the inability to enforce court-imposed fines.

Recent reductions in tobacco-tax revenues and our estimates of total tobacco consumption suggest the extent of tobacco smuggling into Ontario could be in the order of approximately 20 million cartons in 2007 alone (there are generally 200 cigarettes in a carton). However, we were advised that the RCMP, OPP, CBSA, and the Ministry's Special Investigations Branch seized a combined total of fewer than 1 million cartons in 2007—less than 5% of this potential illegal trade.

There is also ample anecdotal evidence that the illegal tobacco trade is significant. For example:

- The Canadian Convenience Store Association commissioned a study that collected cigarette butts outside 55 Ontario high schools between September 18 and October 5, 2007. It found that 31% of the butts were either illegal or of unknown origin.
- Health Canada's Canadian Tobacco Use Monitoring Survey noted that 21% of smokers reported buying tax-free cigarettes produced by First Nations manufacturers.
- There are numerous well-known sources of illegal cigarettes, including Internet websites and tobacco shacks adjacent to or located on First Nations reserves.

We also note that the trade in illegal tobacco contravenes legislation prohibiting sales to minors and bypasses such tobacco-control measures as the requirement for health warnings on packaging and disclosure of toxic ingredients.

RECOMMENDATION 2

The Ministry of Revenue should consult and work closely with the Canadian Border Services Agency, the RCMP, and the OPP to bring to bear the resources and policy changes necessary to deal more effectively with the importation of illegal cigarettes and other tobacco products into Ontario.

MINISTRY RESPONSE

We agree with the recommendation. The Ministry will continue to foster partnerships with the agencies noted while at the same time recognizing that each brings a multi-focused mandate to the partnership equation. All of the enforcement agencies above recognize that there are synergies in working together and eliminating overlap where possible.

The Special Investigations Branch's recently created Intelligence Assessment Unit will allow for a more proactive approach, greater co-ordination of joint projects with existing partners, and better outreach capability to foster new partnership efforts.

TOBACCO ALLOCATION SYSTEM ON FIRST NATIONS RESERVES

The federal *Indian Act*, which supersedes provincial tax legislation, stipulates that persons defined as Indians under the Act are not subject to taxation in certain cases. As a result, Ontario allows First Nations people to buy tax-free tobacco products on reserves for their personal use.

Regulations under Ontario's *Tobacco Tax Act* limit the total number of tax-free cigarettes a reserve may purchase to 2.5 cartons a month for each of the total estimated adult reserve members who smoke and who live on the reserve, and 2.7 cartons a month for each of the total adult reserve members who smoke and live off the reserve. Estimates of the proportion of adults on each reserve who smoke are based on Statistics Canada data regarding the smoking patterns of First Nations people in Ontario. The regulation also allows reserves to purchase an additional 10% of their allocation for special occasions, and another 20% of their allocation when a band council enters into an agreement to assign the allocation among the band's retailers and to monitor their tobacco sales.

Our review of tobacco-tax returns submitted by the three major cigarette manufacturers and other designated collectors found that all reported that they adhered to the tobacco allocation system and limited their tax-free cigarette sales to First Nations reserves to the maximum allowed under the regulation.

However, we also understand that there are a number of manufacturers/wholesalers that have operations on reserves that sell cigarettes to reserves over and above the bands' existing allocations. For instance, one of these manufacturers/wholesalers sold, to 16 reserves, an average of 27 cartons a month for every adult band member who smokes, and to another reserve over 400 cartons per month—a quantity that is well beyond what could reasonably be assumed necessary for personal use and that almost certainly includes cigarettes destined for sale to non-band members.

We also noted the following:

- One manufacturer/wholesaler alone sold more than 250% of the total allocation for all adult band members who smoke and live in Ontario for the 2006/07 fiscal year, at a cost to the Ministry in forgone tax revenue of more than $100 million for that year alone.
- The same manufacturer/wholesaler sold tax-free cigarettes to 28 retailers not registered with the Ministry and therefore not authorized to purchase and resell tax-free cigarettes.

RECOMMENDATION 3

To help meet the intent of the Tobacco Allocation System for First Nations reserves, and to prevent the diversion of untaxed cigarettes to off-reserve sale and consumption, the Ministry of Revenue should ensure that a reserve's purchases from all sources, including on-reserve manufacturers and wholesalers, is limited to the tobacco allocation assigned to that reserve. The Ministry should also consider other options such as greater incentives to First Nations band councils to reduce or eliminate the on-reserve production or purchase of cigarettes for off-reserve consumption.

MINISTRY RESPONSE

We agree with the recommendation and will continue to work within the government framework for discussions with First Nations.

First Nations reserves are primarily federal areas of responsibility. So while an on-reserve tobacco business may be subject to certain provincial tobacco tax requirements, such as the requirement to obtain a tobacco wholesaler or vendor permit and collect tobacco taxes from non-Indians, there are limitations on the province's ability to enforce provincial tobacco tax laws on reserves.

To facilitate greater co-ordination and effectiveness among levels of government, Ontario recently amended the *Tobacco Tax Act* to permit the exchange of information with other governments and municipalities and their agencies, boards, and commissions, where the information is used in the enforcement of legislation relating to or regulating the manufacture, distribution, export, import, storage, sale, or advertisement for sale of tobacco.

The Ontario government expressed its intention in the 2007 Throne Speech and 2008 Ontario Budget to work with Aboriginal peoples in Ontario to expand economic development opportunities and improve their quality of life.

CIGAR TAXES

Although our *2001 Annual Report* recommended that the Ministry consider an allocation system for cigars similar to that in place for cigarettes, we note that no such system had been implemented at the time of our audit. As a result, Ontario is one of just three jurisdictions in Canada—Nunavut and the Yukon are the others—that do not limit sales of untaxed cigars on First Nations reserves.

As was the case at the time of our audit in 2001, it is our view as well as the Ministry's that the tax forgone on cigar sales to and from reserves is significant. For example, the Ministry determined the following for the 2006/07 fiscal year:

- Approximately 76 million cigars were sold tax-exempt to First Nations reserves by off-reserve manufacturers over and above the Ministry's estimated reserve consumption.
- The estimated tax forgone on these 76 million cigars is approximately $26.6 million.
- Almost all of the tax-exempt cigars were sold to just two reserves.

RECOMMENDATION 4

To help ensure that the number of tax-exempt cigars sold to First Nations reserves is reasonable and is not diverted to untaxed off-reserve sale and consumption, the Ministry of Revenue should develop and implement an allocation system for cigars similar to that for cigarettes, as is done in most other Canadian provinces, and ensure that it is adhered to.

MINISTRY RESPONSE

We agree with the recommendation. The Ministry is reviewing options for an allocation system for cigars and continues to consult with interested parties regarding ongoing and emerging issues that affect the feasibility of implementing a cigar allocation system. Regulatory change would be a necessary next step to effect the extension of the allocation system to include cigars.

CIGARETTE PRODUCTION AND CONTROL

There are three large recognized manufacturers of Canadian-branded cigarettes that either manufacture cigarettes in Ontario or import them into the province. Cigarettes manufactured for taxable consumption in Ontario are marked with a yellow tear-tape in the wrap of each package. Cigarettes manufactured for consumption in other jurisdictions or for tax-exempt use on First Nations reserves are marked with a tear-tape in a colour other than yellow.

There are at least three ways to hold cigarette manufacturers accountable for the number of cigarettes they produce and sell, and help ensure that the correct amount of tax is declared and paid. These include:

- placing ministry representatives in production facilities to observe and account for all cigarettes produced;
- requiring manufacturers to account in a verifiable way for the quantity of raw tobacco leaf purchased to determine the quantity of cigarettes produced; or
- requiring cigarette manufacturers to mark tax-paid cigarettes by, for example, the use of yellow tear-tape in packaging, as they have been doing since our last audit in 2001, and then require makers of cigarettes and tear-tape to account for the quantity of yellow tear-tape material purchased and used, and reconcile it with the amount of tax remitted to the Ministry.

As a result of our recommendation in this area in 2001, the Ministry has since January 2006 received information monthly about tear-tape purchases and consumption by individual cigarette manufacturers, as well as sales by tear-tape manufacturers to cigarette makers. However, this data is of little value because:

- The information received from both the tear-tape manufacturers and cigarette makers does not distinguish between yellow and the various other tear-tape colours used either for tax-exempt consumption on reserves or for taxable sale outside Ontario.
- The Ministry has not yet attempted to estimate whether the amount of tear-tape used is

reasonable in comparison to taxes remitted on taxable yellow tear-tape products sold.

Our review of tear-tape purchases by cigarette makers and tear-tape sales reported by manufacturers found a number of discrepancies. In one month alone, for example, one tear-tape manufacturer reported 14 million metres of tear-tape sales more than the corresponding purchases reported by the cigarette maker. If this tear-tape was all yellow and subsequently used on taxable products but not reported as such, we estimated this could have a potential lost-tax value of approximately $173 million.

RECOMMENDATION 5

The Ministry of Revenue should assess its various options for ensuring that all cigarettes manufactured and packaged for taxable consumption in Ontario are accounted for and the applicable tax paid. If it decides to continue the use of yellow tear-tape to mark cigarette packages for taxable consumption in Ontario, it should:

- **receive sufficiently detailed information about yellow tear-tape material sold to, and acquired and used by, cigarette manufacturers; and**
- **reconcile the information received to assess the reasonableness of the reported use of yellow tear-tape material in relation to reported taxable sales.**

[illegible]

We agree with the recommendation. The Act and regulations were amended to establish a system for monitoring the manufacture, distribution, inventory, sale, and use of tear-tape for Ontario. Fines and penalties for failure to comply with these provisions have been enacted.

Since the last audit, the Ministry has registered the three tear-tape manufacturers and is now receiving production and sales information about yellow tear material from them.

The Ministry will examine the ability to reconcile this information with the number of packages of cigarettes manufactured and on which tear-tape has been affixed. The challenges of such an exercise include tear-tape waste in the process (for example, tear-tape gets tangled in the machine) and cigarette manufacturers changing the size and shape of the cigarette packages, affecting the amount of tear-tape used on each pack.

As suggested in the recommendation, the Ministry will determine whether the provision of tear-tape information by tear-tape manufacturers can assist us in validating the information provided to us by manufacturers with respect to sales of taxable and exempt cigarettes.

TOBACCO TAX-RETURN PROCESSING

Designated collectors, importers, exporters, and transporters of tobacco products are required to file monthly returns in a prescribed format. These returns must include:

- information about production, imports, and exports of the applicable commodity;
- listings that detail tax-exempt sales to, and purchases from, other designated collectors; and
- listings that detail the total amount of taxable sales.

The information in these returns is intended to provide the Ministry with sufficiently detailed and corroborating information from third parties to assess the completeness and accuracy of taxable sales reported by the designated collectors.

However, our review of the tax-return processing function and samples of processed tax returns noted the following:

- The Ministry had at the time of our audit either not received, or could not find, a number of the returns we requested for review.

- Many of the returns we reviewed were incomplete and lacked, for example, some of the required detailed schedules.
- There was no evidence in the returns we reviewed that the Ministry had attempted to verify the completeness and accuracy of the information in those returns. Instead, it appeared that individuals processing the returns had ensured only that the amount of tax declared as payable on the return was equal to the payment received.

Our review of a small sample of returns noted many instances where, for example, one collector's reported tax-exempt purchases did not agree with the seller's reported tax-exempt sales to that collector. Although the individual discrepancies were generally small, the total across all returns could be significant.

We also noted that tax returns are reviewed and processed manually. It is our view that in light of the volume of transactions involved, the Ministry should reassess whether it has adequate staff resources to conduct this process effectively.

RECOMMENDATION 6

To help ensure that all cigarette and cigar production and imports are accounted for, and to help assess the reasonableness of reported taxable sales, the Ministry of Revenue should ensure that it:

- **receives and retains all required tax returns, and that the returns are complete and include all the required detailed schedules;**
- **thoroughly assesses on a sample basis the completeness and accuracy of the reported information; and**
- **diligently follows up on significant, unusual, or otherwise questionable items.**

MINISTRY RESPONSE

We agree with the recommendation. The Ministry created three new schedules in 2005 to assess the reasonableness of reported taxable sales. However, the industry changed dramatically over a short period of time (from 2005 to the present). As a result, the schedules could not be completed by out-of-province collectors who do not manufacture in Ontario. The Ministry made interim administrative concessions because these collectors simply could not provide the data or required an inordinate amount of administrative work to complete these new schedules.

The Ministry is currently undertaking a review to identify the data required to assess effectively the completeness and accuracy of taxable tobacco sales in Ontario.

GASOLINE AND DIESEL TAXES

Although the tax rates on gasoline and diesel fuel used for transportation purposes have not increased since our last audit in 2001, total revenues have risen about 15% over those seven years. Current tax rates, along with revenues in the 2000/01 and 2007/08 fiscal years, are illustrated in Figure 4.

Diesel is not taxed when used for heating, in most off-road vehicles, or for machinery used in manufacturing, farming, or construction. Tax-exempt diesel is dyed at the refinery or at bulkstorage facilities while

Figure 4: Tax Revenue by Fuel 2000/01-2007/08

Source of data: Ministry of Revenue

Product	Tax (cents/litre)	2007/08 Fiscal Year Revenue ($ million)	2000/01 Fiscal Year Revenue ($ million)
gasoline–leaded	17.7	2,368	2,045
gasoline–unleaded	14.7		
diesel–non-railroads	14.3	707	613
diesel fuel–railroads	4.5	29	30
propane fuel	4.3	3	10
aviation fuel	2.7	67	56

taxable diesel fuel is left clear to help distinguish between the two.

The Ministry's systems and procedures for the collection of gasoline and diesel taxes have remained unchanged since the time of our last audit in 2001 and are as follows:

- The Ministry designates as collectors all those refiners and wholesalers who in the previous year sold not less than 51% of their product by volume at wholesale. Tax is imposed whenever a designated collector sells a taxable product to a non-collector, or when a registered importer who is not a collector imports taxable products. Sales between collectors and sales for export are tax-exempt. Collectors, and registered importers who are not collectors, must file monthly tax returns and include payment of the correct amount of tax.
- Exporters and all transporters of petroleum products must be registered with the Ministry. Although they are not required to remit taxes, they must file monthly returns detailing their movement of petroleum products. This information is intended to help the Ministry determine whether all products available for taxable consumption are accounted for.
- Importers not registered with the Ministry are required to remit the correct provincial tax to the Canada Border Services Agency at the time they import a taxable product, and the Agency then forwards the tax to the Ministry.

GASOLINE AND DIESEL PRODUCTION AND CONTROL

Four companies operating five refineries account for virtually all petroleum products produced in Ontario. At the time of our audit in 2001, we noted that the Ministry did not require these refiners to report the amount of gasoline and diesel they actually produced. As a result, the Ministry could not at that time assess whether all gasoline and diesel produced was reported as sold or otherwise accounted for; nor could it determine whether the correct amount of tax had been declared and paid.

We are pleased to report that as a result of a recommendation in our *2001 Annual Report*, the Ministry now receives monthly information from each of the refiners about the amount of gasoline and diesel they produce. However, as noted in the following section, there is no evidence that the Ministry is assessing the completeness and accuracy of the reported information, either at the time it processes the returns or during any subsequent audits. As a result, we continue to be concerned that the Ministry is not assessing whether all the gasoline and diesel produced is reported as sold or otherwise accounted for, and that the correct amount of tax is ultimately declared and received.

GASOLINE AND DIESEL TAX-RETURN PROCESSING

As with the tobacco tax, designated collectors and transporters of gasoline and diesel tax are required to file a monthly return. These returns must include detailed schedules with respect to tax-exempt sales to, and purchases from, other designated collectors, along with imports and exports, and the total amount of taxable sales.

Although the Ministry had developed a detailed checklist for processing these returns since our last audit, this checklist was not being used. We were advised that, instead, the tax-return-processing function consisted essentially of a high-level review of the return to ensure that, for example, required schedules are attached and agree in total with the tax return, and that the amount of tax declared is actually received. However, where required schedules were missing or lacked necessary information, there was in most cases no evidence of any follow-up by the Ministry; nor was there any evidence of supervisory review.

We were advised that the Motor Fuels and Tobacco Tax Branch had implemented a desk-audit function to analyze and perform detailed verification of the information reported in the returns. However, that function was discontinued subsequent to the Ministry reorganization during the 2005/06 fiscal year and there is currently no process in place to assess the completeness and accuracy of information reported in the returns. For example, the Ministry has no way of reconciling reported tax-exempt purchases and sales between designated collectors, or of verifying imports and exports reported by collectors against the independent information submitted by inter-jurisdictional transporters.

Our detailed review of one month's tax return for seven different collectors noted the following:

- Designated collectors reported selling 128 million more litres of tax-exempt fuel to other collectors than those collectors reported purchasing. If this fuel was sold, for instance, at the retail level and the appropriate tax paid by consumers but never remitted, the potential tax loss could be as high as $19 million.
- Reported imports and tax-exempt exports by the collectors could not be corroborated with transporter returns showing the product was shipped outside of Ontario because the transporters were not identified in the collector tax returns. Furthermore, customs documentation, bills of lading, and invoices for the exported product are often not received even though they are required to be submitted.

We did note that since the time of our last audit, the Ministry had developed a computerized information system to allow electronic matching of data entered manually from the various return schedules. However, the system had not been tested and implemented, with the result that returns processing and verification continued to be done manually. In our view, this is impractical, given the number of transactions and the resources assigned to this function.

RECOMMENDATION 7

To help ensure that all gasoline and diesel production can be accounted for, and to help assess the reasonableness of reported taxable sales, the Ministry of Revenue should ensure that:

- **all returns received are completed and include, for example, all required detailed schedules and documentation;**
- **it thoroughly assesses on a sample basis the completeness and accuracy of the reported information;**
- **it diligently follows up on significant, unusual, or otherwise questionable items; and**
- **it expedites its planned implementation of a computerized tax-return-processing function.**

MINISTRY RESPONSE

The Ministry agrees with the recommendation. Similar to our response to Recommendation 6, the Ministry is currently undertaking a review to identify the data required to effectively assess the completeness and accuracy of taxable gasoline and diesel sales in Ontario. In addition, the Ministry has taken steps to reinforce administrative practices and controls related to the storage and retention of tax returns.

We will continue to look for opportunities to improve reconciliation processes when we transition the administration of gasoline and fuel tax into the Ministry's integrated tax system known as ONT-TAXS.

GASOLINE TAX EXEMPTIONS

Under the *Gasoline Tax Act*, First Nations people who hold a valid Certificate of Exemption issued by the province of Ontario are entitled to purchase tax-exempt gasoline on a reserve for their personal use.

For each tax-exempt sale, the retailer must complete a pre-numbered Ministry-issued voucher indicating:

- date of sale;

- purchaser's name and vehicle licence plate number;
- total sales proceeds (including tax);
- number of litres purchased;
- the provincial tax per litre;
- the tax included in the total sale; and
- the net cost to the First Nations person with the exemption card.

The voucher must also be signed by the purchaser and include an imprint of the Certificate of Exemption.

In most cases, the retailer pays the gasoline tax on purchasing the gasoline inventory, and then submits a request for a tax refund directly to the Ministry. First Nations gasoline refunds for the 2007/08 fiscal year totalled approximately $21.3 million.

Refund claims are to be reviewed by the Ministry for completeness and accuracy, as well as for high volume or otherwise unusual purchases. When necessary, the Ministry must contact the retailer or purchaser to obtain additional information needed to verify the tax-exempt status of the purchases. Information provided by the Ministry indicated that for 2006 and 2007, 55 refund claims were adjusted or disallowed, although the total value of the amounts adjusted or disallowed is not known.

Our review of a sample of refund claims paid by the Ministry found many questionable items similar to those noted in our *2001 Annual Report*. For example:

- In many cases, refund vouchers lacked the required imprint of the Certificate of Exemption or the vehicle licence plate number.
- Retailers frequently submitted consecutively numbered vouchers for the purchase of identical quantities of gasoline, which should have been followed up on or disallowed. For example, one retailer submitted 16 consecutively numbered refund vouchers for 53 litres each, and another submitted 15 consecutively numbered refund vouchers for 47.11 litres each.

We also note that the Certificates of Exemption issued by the province never expire, and controls over the issuing of these certificates have been lax. For example:

- The Ministry did not maintain any information with respect to the number of Certificates of Exemptions issued, or to whom they were issued, prior to 2000.
- Although the Ministry has maintained information with respect to the number of Certificates of Exemptions issued, and to whom, since 2000, there are no procedures in place to prevent the issuing of a new certificate to someone who already had one prior to 2005, or to cancel any previously issued Certificates of Exemption.

RECOMMENDATION 8

To help ensure that gasoline tax refunds are only issued for eligible gasoline purchases, the Ministry of Revenue should:

- **exercise more vigilance in its review of refund vouchers and, where information is questionable or missing, ensure that an appropriate follow-up with the retailer is done prior to allowing the claim; and**
- **strengthen its procedures for the issuance and cancellation of First Nations Certificates of Exemption.**

MINISTRY RESPONSE

Effective September 2008, the Ministry has moved to electronic receipt of First Nations gasoline tax-refund claims to improve validation of refunds and First Nations Certificates of Exemption. We will continue to partner with Indian and Northern Affairs Canada (INAC) as it modernizes the Status Indian identification card with a view to enhancing and streamlining the provision of statutory refunds to First Nations individuals.

GASOLINE, DIESEL, AND TOBACCO TAX AUDITS

As the information reported in tax returns is not verified at the time of processing, and in the absence of a desk-audit function, field audits become all the more critical for detecting any undeclared or unpaid taxes. We noted that gasoline and diesel tax audit assessments averaged approximately $5.4 million per year in the last four years, while tobacco tax audit assessments averaged $1.7 million in the same period.

Audit Coverage

Although the Ministry's other taxation programs have established tax-revenue thresholds for registrants for the purpose of setting audit coverage goals, no similar thresholds have been established for the gasoline, diesel, and tobacco tax programs. Instead, we were advised that the Ministry's goal is to audit the largest and riskiest collectors on a four-year cycle in order to fall within the legislated allowable periods for reassessment. Thirty-eight of 104 tobacco tax collectors and seven of 89 gasoline and fuel collectors were assigned to this category.

Our review of the Ministry's audit coverage for these collectors noted that:

- Only a few of the 38 large tobacco tax collectors have been audited at least once every four years as planned. While some of the remaining collectors have been audited once in the last six years, many, including the three main manufacturers, have only been audited once in the last 10 to 15 years. Similarly, the majority of the remaining small collectors have not been audited in the past 10 years.
- All seven of the large gasoline and diesel tax collectors have been audited every four years as planned. However, the majority of the remaining 82 small collectors have not been audited in the last 10 years.

Audit Working-paper Files

Audits help determine if the correct amount of tax has been declared and paid. For this reason, it is necessary to document audit working papers properly to demonstrate that audits have been properly planned and satisfactorily completed. We consequently requested a sample of audit working-paper files for our review.

Although we found in the files we reviewed that the assessments issued were adequately supported, we identified a number of concerns, including the following:

- Several of the working-paper files we requested could not be located and thus could not be reviewed.
- There was generally no evidence of audit planning to ensure that areas with a high risk of non-compliance were identified and the necessary audit procedures performed. In light of the very limited audit resources the Ministry has allocated to gasoline, diesel, and tobacco tax audits, adequate audit planning to ensure the audit focuses on the areas of highest risk is particularly important.
- Although the Ministry had developed a detailed audit program as a result of a recommendation in our 2001 report, we found this program was either not in the files we examined or, when it was, had not been signed off and cross-referenced to indicate which audit steps had been performed.
- In general, most working-paper files were difficult to follow and consisted primarily of photocopies with no indication of what, if any, audit work had been performed.
- With one exception, all working-paper files lacked evidence of managerial review and approval, either at the planning stage or at the conclusion of fieldwork.

We also noted several instances where auditors were told by their managers to terminate an audit and issue a nil assessment—indicating that no tax was owed—without documenting in the file the reasons for doing so.

RECOMMENDATION 9

To help ensure that audit work is satisfactorily planned and completed, and clearly determines and demonstrates whether the correct amount of tobacco, gasoline, and diesel tax has been declared and paid, the Ministry of Revenue should:

- complete audits of the largest and higher-risk designated collectors within the planned four-year periods to ensure that the audits do not fall outside the legal time limits for reassessment;
- ensure that all working-paper files are retained and clearly document the work done and decisions made; and
- require supervisory review and approval and documentation of decisions made, both at the planning stage of an audit and at the conclusion of fieldwork, to help ensure that work is focused on the areas of highest risk of non-compliance and that the work necessary to mitigate the identified risk is adequately completed.

MINISTRY RESPONSE

The Ministry agrees with the recommendation and is in the process of implementing it. For example, all large remitters that have not been audited in the last four years have been identified and will be prioritized for audit in the current and next fiscal years.

The Ministry's Tax Compliance Branch, as part of its recent restructuring, has created a training unit to support the delivery of the program and the ongoing training of both auditors and their managers. Work is currently being done on developing a file-documentation training package that will be presented to audit staff.

Managers will be more diligent in their involvement in the audit process, from audit selection to file documentation to auditing areas of risk.

Further improvements in the area of managing the audit process will come with the implementation of corporate initiatives such as risk-based audit selection and ONT-TAXS.

FIELD INSPECTIONS

Gasoline and Diesel Inspections

The primary objective of the gasoline and diesel inspection unit is to deter the illegal use of tax-exempt dyed diesel in vehicles driven on provincial roads and highways. Field inspectors primarily conduct random roadside inspections of diesel-powered vehicles to ensure that they are using only clear, uncoloured fuel on which tax has been paid. Traditionally, they also inspected fuel terminals, bulk-storage facilities, and retail outlets in search of dyed untaxed fuel. However, the risk that these facilities have quantities of inappropriately stored untaxed fuel has been assessed as low, and so the number of these inspections has been significantly reduced.

Where the illegal use of untaxed fuel is detected, inspectors will issue a Provincial Offences summons, similar to a parking ticket. They may also issue a tax assessment based on an estimate of the tax payable for all fuel used in the vehicle since it was new, unless the owner can prove that tax was paid on fuel previously used in the vehicle.

We noted that for the 2006/07 fiscal year, the Ministry's seven gasoline and diesel inspectors issued just 24 assessments, with a total value of $42,000. In the 2007/08 fiscal year, the same seven inspectors issued 38 assessments worth $152,640. This compares to the similarly modest results at the time of our last audit in 2001, when 12 inspectors issued assessments totalling $260,000 in the 2000/01 fiscal year.

There is no evidence that the Ministry has assessed the likely extent and risks associated with various tax-evasion schemes. Based on this and the fact that each inspector issues an assessment on average only once every three or four months, we question whether its current inspectors are being effectively deployed.

RECOMMENDATION 10

To maximize the benefits of its diesel-fuel inspection program, the Ministry of Revenue should:

- **formally assess the likely risk and extent of the use of untaxed fuel in vehicles operating on provincial roads and highways;**
- **develop an inspection strategy that is tailored to the risks identified and that has the best chance of deterring or identifying the illegal use of untaxed fuel; and**
- **assess the results of improving its enforcement efforts before concluding that more inspectors are needed.**

MINISTRY RESPONSE

The Ministry frequently reviews its approach to managing the coloured-diesel-fuel inspection program. For example, this fiscal year, the frequency of inspection of terminals and bulk plants has been reduced in recognition of the level of tax compliance. Emphasis has shifted instead to coloured-fuel checks of vehicles, large consumers of diesel fuel, and wholesalers because the risk factors in these areas have increased with the rise in the price of fuel. The first line of detection of abuse in this area is the sampling of fuel in the running tanks of licensed vehicles of large consumers of diesel fuel.

Tobacco Retail Inspection Program

The Ministry initiated the Tobacco Retail Inspection Program (Program) in early 2006 and assigned 33 inspectors to it during the 2007/08 fiscal year. We understand that the Ministry intends to increase the number of inspectors shortly to 58.

Under the Program, inspectors visit convenience stores and other retail outlets to search for tobacco products, such as illegal unmarked cigarettes and quantities of legally marked cigarettes, that cannot be substantiated with supplier invoices. Where they find such inventories, inspectors seize them and issue an assessment equivalent to three to eight times the tax that should have been paid on both the illegal and the legal but unsubstantiated inventories.

Ministry records indicate that in the 2007/08 fiscal year, the 33 inspectors conducted about 5,500 store visits, seized approximately 3,500 cartons of cigarettes, and issued assessments worth a total of about $3.1 million. We also understand that most of the amounts assessed have not been collected, and may never be if the store goes out of business. In addition, we noted that the value of assessments in 2007/08 declined by about 40% from the previous year, even though the quantity of cigarettes seized actually increased.

At first glance, this would appear to be a successful enforcement initiative, and the Ministry plans to increase the total number of convenience store inspectors by 75% to 58. However, the quantity of cigarettes seized and the amount of taxes assessed as a result of inspections account for an extremely small percentage of what we estimate to be a $500-million-a-year tax gap. We question whether a better return might result from increased enforcement in other areas.

RECOMMENDATION 11

The Ministry of Revenue should assess whether the planned expansion of the Tobacco Retail Inspection Program is the most effective way to detect and deter sales of untaxed cigarettes, or whether a more concentrated effort at the point of manufacture or importation of untaxed cigarettes into Ontario would yield a better return.

MINISTRY RESPONSE

The Tobacco Retailer Inspection Program has proven to be very effective in limiting the quantity of untaxed/illegal cigarettes available to consumers at the retail level.

In the last two years, the Program assessed penalties of $7.9 million and confiscated approximately 828,000 cigarettes. With the increased staff, the program will visit each retail site approximately once per year. The physical presence of ministry staff in communities across the province, coupled with the inspection of retail stores in these communities, is proving to be an effective tool in addressing the contraband issue at the retail level, which is the largest network of sites (approximately 15,000 to 25,000 stores in Ontario) where consumers can purchase cigarettes.

The Ministry agrees that the Tobacco Retailer Inspection Program alone will not address the contraband problem. The involvement of other enforcement agencies and the federal government is necessary to deal with this issue.

BUSINESS PROCESS RE-ENGINEERING

As previously noted, returns and supporting schedules for gasoline, diesel, and tobacco taxes are filed monthly in paper form. It is our view that this system is impractical, given the number and variety of such transactions.

At the time of our audit in 2001, the Ministry said it had initiated a comprehensive business re-engineering project in 1997. Initially, the project was to have been completed in 2001, but that was later revised to 2003. The project was to have included such features as:

- electronic filing of tax returns, including all required supporting information;
- electronic processing of returns; and
- extensive data comparison and analysis capability to help verify the accuracy and completeness of information in the returns and supporting documents.

However, we now understand that this business re-engineering project will not be completed and will be replaced by a new ONT-TAXS accounting system for commodity tax programs in the 2009/2010 fiscal year. The underlying design and functionality of this new system is still in the planning stages. Therefore, it has not yet been determined whether the features that were to be included in the former business re-engineering project will be included in the new system.

We believe that a well-designed system that incorporates the above features would facilitate the identification of potential transactions for which tax was not paid that warrant further investigation. Given the billions of tax dollars involved, we encourage the Ministry to invest the necessary resources in system planning and up-front design to ensure the appropriate functionality. As well, appropriate research on other jurisdictions' "best of breed" commodity tax systems should be conducted.

Chapter 3

Section

3.11

Ministry of Health and Long-Term Care

Hospital Board Governance

Background

Almost all public hospitals in Ontario are incorporated under the *Corporations Act* and governed by a board of directors. In the 2007/08 fiscal year, there were over 150 hospital corporations in the province. The *Corporations Act* sets out requirements for the hospitals' boards of directors, such as the minimum number of directors and minimum frequency of meetings.

The *Public Hospitals Act* and its regulations provide the framework within which hospitals operate. The *Public Hospitals Act* also sets out requirements regarding the composition and responsibilities of boards, including responsibilities for the quality of patient care. Under the *Ministry of Health and Long-Term Care Act*, the duties and functions of the Minister of Health and Long-Term Care (Minister) include governing the care, treatment, services, and facilities provided by hospitals. The Minister is also responsible for administering and enforcing the *Public Hospitals Act* and its regulations.

Boards can play a vital role by providing the leadership necessary to ensure that hospitals offer the best patient care possible while functioning efficiently, effectively, and economically. Ineffective boards can detrimentally affect patient care and contribute to inefficiencies. Research in the United States on governance has found a direct link between hospital board practices that focus on quality and higher performance by the hospital, both clinically and financially.

In 2007/08, the total operating costs of hospitals were about $20 billion, of which the Ministry of Health and Long-Term Care (Ministry) funded about 85%. The additional 15% came from such sources as charges for semi-private and private accommodations, payments from the Workplace Safety and Insurance Board, parking fees, and donations. Each hospital board determines how its funds are spent to best meet the needs of patients in its area.

Until last year, hospitals were accountable to the Ministry, which funded them. That changed on April 1, 2007, when, under the *Local Health System Integration Act*, new Local Health Integration Networks (LHINs) assumed responsibility for prioritizing, planning, and funding certain health-care services, including hospitals. The stated purpose of the *Local Health System Integration Act* is to "provide for an integrated health-care system to improve the health of Ontarians through better access to high-quality health services, co-ordinated health care in local health systems and across the province, and effective and efficient management of the health system at the local level by LHINs." Rather than reporting to the Ministry, hospitals now report on most matters to one of 14 LHINs across the province. The LHINs are accountable to the Ministry.

Ontario is one of the few provinces in Canada in which hospitals still have their own individual boards of directors. Most other provinces eliminated them when they introduced decentralized models, such as regional health boards, for the delivery of health-care services.

Objective and Scope

Our objective was to review the board-governance practices and oversight processes of Ontario hospitals, and compare them to current best practices in governance.

With the assistance of an independent survey firm, we sent surveys to all board members of 20 Ontario hospitals to obtain their feedback on board-governance and oversight practices at their hospitals and issues facing their boards. About half of them responded, with at least several members responding from each of the 20 hospital boards. The 20 hospitals all provided acute-care patient services; varied in size; and represented all 14 LHINs. The surveyed hospitals are shown in Figure 1.

We interviewed staff from the Ministry and experts in Ontario hospital governance, including individuals appointed as supervisors under the *Public Hospitals Act*. We reviewed relevant documents, including peer review reports on hospitals that had or were budgeting deficits, and literature on governance, including publications from the Ontario Hospital Association, Ontario Securities Commission, Canadian Institute of Chartered Accountants, Conference Board of Canada, Institute of Public Administration of Canada, and Canadian Comprehensive Auditing Foundation. We also reviewed information from other jurisdictions on best practices in governance.

We reviewed the results of a 2007 survey on governance the Ontario Hospital Association (OHA) conducted. It asked for one response from each hospital in the province and reported an 80% response rate. In addition, we inquired about the OHA's initiatives to strengthen hospital governance in Ontario. We also reviewed the results of a 2007 governance survey of all Greater Toronto Area (GTA) hospitals, conducted as a result of the appointment of a hospital supervisor at one GTA hospital.

We developed criteria to guide our survey and interviews, based on recognized good-governance practices that should be in place. We discussed these criteria with senior management at the Ministry, who agreed to them.

We did not rely on the Ministry's internal audit service team to reduce the extent of our work because it had not recently conducted any audit work on hospital board governance.

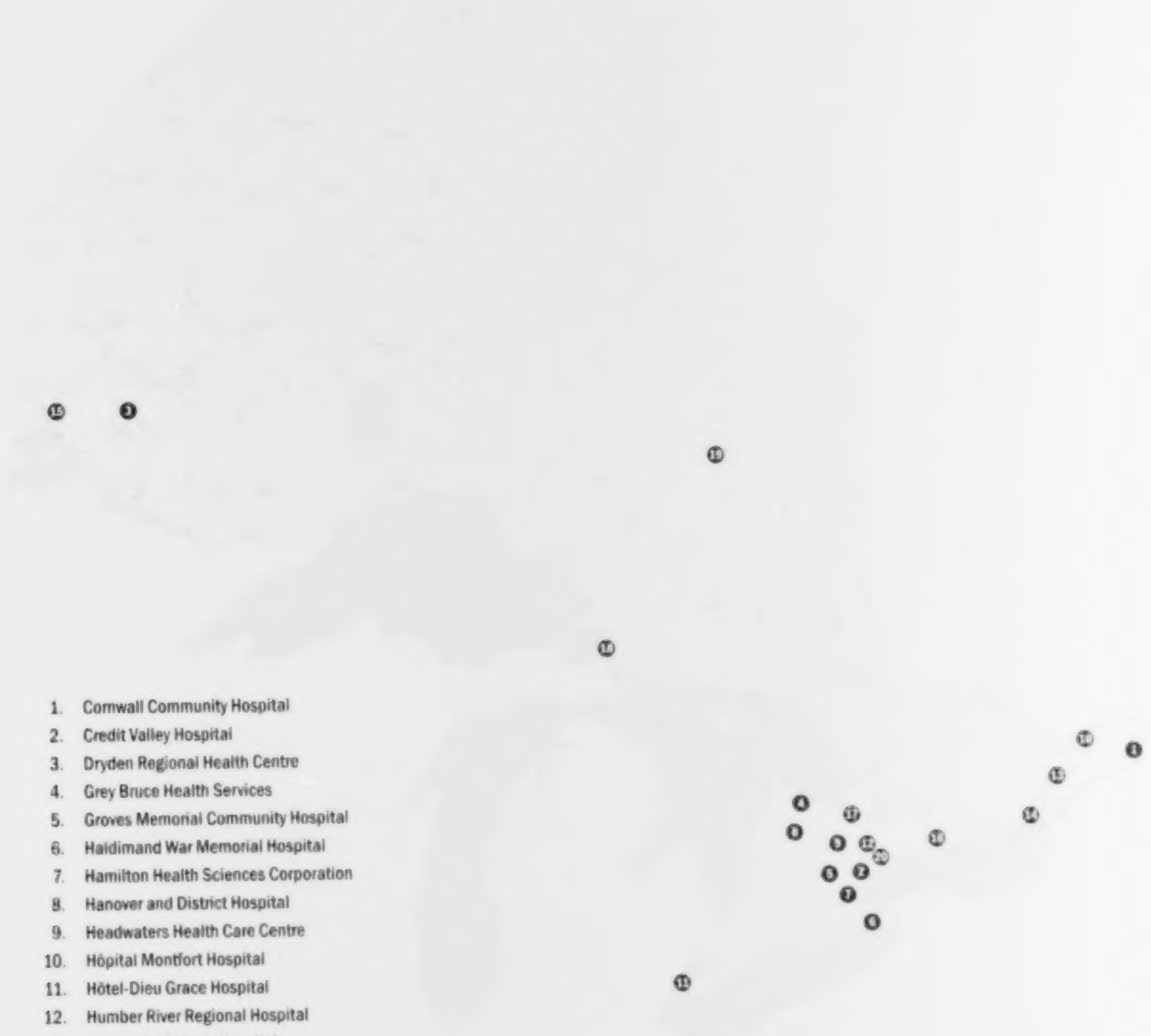
Summary

Many of the hospitals we surveyed have adopted a variety of good-governance practices. These practices include an orientation program for new board members and a written code of conduct and confidentiality guidelines. However, many board members who responded to our survey indicated that hospital governance could be improved by clarifying the roles of hospital boards, the Local Health Integration Networks (LHINs), and the Ministry of Health and Long-Term Care (Ministry). As well, many board members identified areas where they felt hospital governance practices could be strengthened. Some of these areas, as well as observations arising from our research and other work, are summarized as follows:

- Almost 70% of board members responding to our survey indicated that information-technology skills were underrepresented on their board, and almost 50% identified legal skills as being underrepresented.
- Ex-officio board members—persons appointed by virtue of their position within the hospital

Figure 1: Hospitals Surveyed

Prepared by the Office of the Auditor General of Ontario



1. Cornwall Community Hospital
2. Credit Valley Hospital
3. Dryden Regional Health Centre
4. Grey Bruce Health Services
5. Groves Memorial Community Hospital
6. Haldimand War Memorial Hospital
7. Hamilton Health Sciences Corporation
8. Hanover and District Hospital
9. Headwaters Health Care Centre
10. Hôpital Montfort Hospital
11. Hôtel-Dieu Grace Hospital
12. Humber River Regional Hospital
13. Kemptville District Hospital
14. Kingston General Hospital
15. Lake of the Woods District Hospital
16. Northumberland Hills Hospital
17. Royal Victoria Hospital
18. Sault Area Hospital
19. Hôpital de Smooth Rock Falls Hospital
20. Sunnybrook Health Sciences Centre

or another organization, such as medical and community groups, volunteers, hospital foundations, and municipalities—may be placed in the challenging position of representing specific interests which might, at times, be in conflict with the hospital's and community's best interests. A survey of hospital boards in the Greater Toronto Area noted that the average board had six ex-officio members, with one board having 12 such members out of a total of 25.

- More than 55% of hospitals have bylaws permitting individuals to pay a small fee or meet other criteria to become community "shareholder" members, which entitles them to elect the board members of the hospital. There is a risk that a hospital's priorities can be significantly influenced if enough board members are elected who have a specific agenda or represent a specific interest group.
- Almost all board chairs responding to our survey indicated that their board had an orientation program in place for new directors to help ensure that they initially understood their roles and responsibilities, and about 75% indicated that there was also a continuing education program in place.
- Only slightly more than half of responding board members indicated that the information they received on their hospital's progress toward the achievement of its risk-management objectives and goals was "very useful," with most other members stating that it was just "moderately" or "somewhat useful."
- Over 90% of the chairs responding to our survey indicated that, in accordance with best practices in governance, the most recent evaluation of their CEO compared actual performance to expectations. Furthermore, almost all the responding board members indicated that evaluating hospital management's performance was an important part of their role. However, only 63% of members "strongly agreed" that they were involved in evaluating their CEO's performance.
- Various Ministry-funded reports have recommended that certain good-governance practices, such as facilitating competency-based recruitment and setting term limits for directors, be addressed in legislation. This may warrant review when future amendments to the *Public Hospitals Act* are being considered.
- Hospital boards, peer reviews, and ministry inspections, investigations, and supervisor appointments have identified and/or recommended many best practices for hospital governance. However, no formal process has been established to share these practices among hospital boards.

We wish to thank the board members who completed our survey for their input, as well as the experts in hospital governance who met with us.

[illegible]

The Ministry supports the Auditor General's review of governance practices and agrees with the Auditor General on the importance of good hospital governance. However, as noted in the Auditor General's report, hospitals are autonomous corporations under the *Public Hospitals Act* and responsible for the quality of care provided by their institutions, as well as their governance structures. Nevertheless, noting the importance of good hospital-governance practices and the role of the Ministry in appointing inspectors and supervisors when governance issues arise, the Ministry will work with its partners to foster good-governance practices.

Detailed Observations

BEST PRACTICES IN HOSPITAL GOVERNANCE

The *Public Hospitals Act* (Act) and one of its regulations outline some specific powers of hospital boards, including the power to:

- appoint physicians—and revoke or suspend those appointments;
- monitor activities within the hospital for compliance with the Act; and
- ensure that appropriate admitting procedures are in place for patients.

The Ontario Hospital Association (OHA) provides further guidance to hospital boards through educational sessions and reference materials on their duties, including:

- ensuring quality of care for patients;
- participating in the development of a hospital strategic plan;
- selecting and overseeing senior management;
- reporting to members and stakeholders, including the Ministry; and
- approving financial statements.

In the last five years, there has been increased interest in ensuring that hospital boards follow good-governance practices. During this period, the Ministry funded several reports, including one commissioned by the OHA in 2004—*Hospital Governance and Accountability in Ontario*—that assessed hospital governance across the province and identified best practices. In addition, the OHA has implemented training and certification programs to promote the consistent practice of good governance. Accreditation Canada, an organization that conducts external reviews of hospitals in Canada based on its performance standards, also released governance standards that it planned to use starting in 2008 to evaluate hospitals seeking accreditation. Over the last decade, many other organizations have also researched and reported on the effectiveness of governing boards, with some specifically focused on hospital governance.

Based on our research from a variety of sources, we have summarized several key best practices for the effective operation of a hospital board and categorized them within six areas, as outlined in Figure 2.

Board Composition

Best practices in governance indicate that effective hospital boards are composed of individuals who:

- have the appropriate levels of ability, commitment, and independence to fulfill their responsibilities;
- collectively, have the diversity and depth of knowledge and competencies to carry out the board's oversight responsibilities; and
- are selected through a systematic, fair, and transparent nomination process.

All of the hospitals that we surveyed indicated that they had a board-recruitment or nominating committee to make recommendations for the appointment of new directors.

Hospitals are complex organizations. For this reason, there is a wide array of competencies that a board should collectively possess in order to effectively carry out its mandate. These competencies include:

- clinical/medical;
- business management;
- finance/accounting;
- legal;
- construction and project management;
- risk management;
- human resources; and
- information technology.

Tools that a recruitment or nominating committee uses to identify and assess potential candidates include skills matrices and candidate interviews. A skills matrix is a table that compares the current competencies the board collectively possesses to the key competencies required over the next three to five years, based on the hospital's strategic plan.

Figure 2: Selected Best Practices for Hospital Board Governance

Prepared by the Office of the Auditor General of Ontario

board composition	• Board is composed of people who, individually, have the ability and commitment to fulfill their responsibilities and who, collectively, have the breadth of knowledge and competencies to carry out the board's responsibilities • Board members are selected through a nominating process that is systematic, fair, and transparent • Board appointments are made to minimize all conflicts of interest
roles and responsibilities	• Board roles and responsibilities are clearly outlined in a written charter or bylaws • An orientation program is in place for new members covering such topics as their roles and responsibilities in achieving board objectives, as well as conflict-of-interest policies • An ongoing training program is in place covering topics such as emerging governance issues and practices, as well as more detailed information on specific hospital programs
involvement in strategic decisions and risk management	• Board members act to ensure that the organization's objectives are met through strategic decisions, including: • overseeing the development of a multi-year strategic plan • monitoring progress on the implementation of the strategic plan • approving capital and operating budgets consistent with the strategic plan • understanding risks inherent in hospital operations and overseeing the development of a risk-management plan
access to relevant information for decision-making	• Board members are provided with relevant and understandable information to enable them to effectively oversee hospital operations • Information is disseminated in advance of board meetings to allow members sufficient time to review it prior to meetings
committees	• Board establishes committees to support it in fulfilling its responsibilities relating to such key areas as quality, finance and audit, and human resources
performance evaluation	• Processes are in place for the annual evaluation of the performance of individual directors, and of the board as a whole, against the performance expectations outlined in the board's charter or bylaws • Board annually assesses the CEO's performance against job description and related performance expectations approved by the board

Gaps noted in key areas become recruitment priorities. A 2007 OHA survey on hospital governance found that over 85% of responding hospitals used a skills matrix and over 80% interviewed selected candidates when recruiting board members.

As well, respondents to our survey generally felt that their boards were well represented in most of the competency areas listed above. However, almost 70% of respondents indicated that information-technology skills were underrepresented on their board, while 50% identified legal skills as being underrepresented.

The number of members on a hospital board must be balanced between the need for the required competencies and the need for the board to be a manageable size for productive discussion and decision-making. Experts in the area of hospital governance differ in opinion regarding the optimal number of board members. However, optimal size is generally said to range between 13 and 20 members. The Ministry does not track the number of members per hospital board. However, the hospitals in our survey averaged about 18 members per board—from a low of nine members to a high of 24. As would be expected, larger hospitals in the Greater Toronto Area (GTA) appear to have larger boards: a 2007 survey of GTA hospitals noted that these boards averaged about 22 members, with a range from 16 to 30. By comparison, hospitals in smaller communities may have smaller boards owing in part to the fact that there are fewer people in the local community who are available to serve on the board. While larger boards can more readily have members covering all the core competency areas, smaller boards can often function more effectively.

Ex-officio Board Members

The OHA's *Hospital Governance and Accountability in Ontario* noted that board members have the "duty to act loyally and avoid conflicts between the director's personal interests and the interests of the corporation." We noted that some directors, referred to as "ex-officio" members, are appointed by virtue of their position within the hospital and other organizations, such as a hospital foundation, volunteer group, municipality, or religious organization. Such appointments may be the result of provincial legislative requirements or hospital bylaws. For the most part, these members have the same voting rights as other directors.

The *Public Hospitals Act* (Act) requires that the following people be appointed as ex-officio members of hospital boards:

- chief of staff or chair of the medical advisory committee;
- president of the medical staff; and
- in certain hospitals, vice-president of medical staff.

However, a 1992 review of the Act recommended changes so that "no person appointed to or employed by a hospital can serve as a member of that hospital's board of directors." The concern was that ex-officio members who are medical staff, for example, could find it difficult to balance the goal of advancing the medical services delivered by the hospital with the need for fiscal responsibility. Hospital boards need access to medical advice and other clinical information, yet that advice could come from a separate medical advisory committee available to the board, or through the appointment of qualified individuals from outside organizations.

In addition to legislated ex-officio positions, hospital bylaws often require certain ex-officio appointments—municipal councillors, for example, or representatives of religious or educational institutions, foundations, or volunteer organizations. These bylaws are generally established and approved by individual hospital boards on the basis of guidance—from the Ontario Hospital Association and the Ontario Medical Association—that was most recently revised in 2003. However, the more recent OHA report *Hospital Governance and Accountability in Ontario* noted that the "representative" appointment of board members based on specific interests is "inconsistent with recognized best practices" because it can create a real or perceived conflict of interest. For example, municipal councillors may have difficulty balancing their responsibilities to a hospital board with their duty to represent the people who elected them when faced with decisions such as locating certain clinical services outside of their constituency. Ten percent of the respondents to our survey indicated that one of their top three roles as a board member was to represent specific interests, including medical and community groups, municipalities, volunteers, and the hospital's foundation. Interestingly, some board members responding to our survey noted their board had recently conducted a governance review that resulted in the reduction of the number of ex-officio members to only those required under the Act.

At the time of our work, the Ministry did not have any information on the number of or different types of ex-officio directors currently serving on hospital boards. However, results of a 2007 OHA survey indicated that about half of all boards have representatives from both their hospital's foundation and volunteer association. Almost 40% had municipal representatives. Furthermore, a survey of hospital boards in the GTA noted that they had an average of six ex-officio members out of an average 22 member board—with one board having 12 ex-officio directors out of a total of 25.

Community "Shareholder" Members

A number of reports commissioned by the Ministry have emphasized the need for hospital boards to obtain community input. Some hospital boards do this by allowing for community "shareholder" members (also known as community corporate members), usually individuals from the general public. These individuals generally pay a modest annual fee to the hospital or its foundation, or must meet criteria such as living near the hospital and showing support for the hospital's objectives. As community "shareholder" members, they function much as do the shareholders of a commercial corporation—that is, under the *Corporations Act*, they can elect all the members of a hospital's board of directors except those ex-officio directors appointed through provincial legislation or hospital bylaws.

In certain circumstances, however, community "shareholder" members may impede the board's decision-making ability. For example, reports commissioned by the Ministry indicated that the ability of hospital boards to make difficult decisions may be hindered if directors elected by community "shareholder" members:

- have a specific agenda;
- lack the necessary knowledge, skills, and experience; or
- become involved in disputes with the community "shareholder" members, which may impact the director's continuing membership on the board.

The OHA's report, *Hospital Governance and Accountability in Ontario,* noted the importance of aligning community "shareholder" membership with the effective functioning of the hospital board to "preclude the potential for inappropriate members or, worse, a hijacking" of the board's agenda. This underscores the risk that a hospital can be "taken over" by a particular group with an agenda to the detriment of other stakeholders. A 2007 hospital peer review commissioned by the Ministry indicated that, at one hospital, it was "evident that board members are subjected to influence by selected members of the community including those that are politically active. The board must ensure that processes are in place to balance localized advocacy groups and are not aligned with only one of the many community-based coalitions."

Literature on best practices suggests that a community advisory committee can provide hospital boards with community input without the need for community "shareholder" members. Nevertheless, the results of a 2007 OHA survey indicated that more than 55% of hospital boards have bylaws permitting community "shareholder" members, who have the right to elect members of the board.

The Ministry indicated that it has no information about any systemic issues that might have arisen as a result of the existence of community "shareholder" members. Similarly, the Ministry has no information on the effectiveness of community "shareholder" membership in conveying community views to boards.

The *Local Health System Integration Act* also requires the LHINs, as well as hospitals, to obtain community input. It states that one of the objectives of the LHINs is to "plan, fund and integrate the local health system to achieve the purpose of the Act, including [engaging] the community of persons and entities involved with the local health system in planning and setting priorities for that system, including establishing formal channels for community input and consultation." While hospitals will continue to require community input in the future, particularly in the area of service delivery, there may be an opportunity for them to obtain some of this input through their LHINs.

Board Roles and Responsibilities

Best practices in governance indicate that directors have a responsibility to understand their duties and obligations as board members, including board-governance processes and hospital operations. The roles and responsibilities of directors should be clearly communicated to and understood by all directors. As well, these roles and responsibilities should be outlined to all new members of a board in an initial orientation program and through continuing education throughout their term.

The roles and responsibilities of directors are normally documented in each hospital's bylaws. These bylaws are unique to each hospital and generally outline the responsibility of the board as a whole, the duties and responsibilities of individual directors, the code of conduct, and the conflict-of-interest and confidentiality guidelines. All of the board chairs responding to our survey stated that their boards had written conflict-of-interest and confidentiality guidelines; 88% indicated that their boards had written codes of conduct. As well, 94% of the responding board chairs stated that their board had an orientation program in place for new directors. However, 25% indicated that there was no continuing education program.

Functioning of the Board

Among a board's most important responsibilities is to oversee the development of, approve, and monitor the hospital's strategic plan and risk-management plan. To fulfill these and other responsibilities well, boards require information covering a significant number of different topics. Therefore, to facilitate in-depth discussions and analysis of this information and other duties, such as meeting with the hospital's auditors, most boards establish committees to focus on specific areas, such as quality, human resources, and finance.

Involvement in Strategic Decisions and Risk Management

Hospitals should have a multi-year strategic plan. The strategic plan should include the hospital's vision, mission, and values; strategic direction and related goals and objectives; implementation timetable; and performance indicators that measure the hospital's progress in meeting its strategic plan. The board should oversee the development of and approve the strategic plan. In addition, the strategic plan should be reviewed annually and formally updated every three to five years or when there is a significant change in the hospital's operating environment.

All of the board chairs responding to our survey indicated that their strategic plan had been updated and approved within the past five years, with 75% indicating that it had been updated and approved within the past two years. Furthermore, 44% of the responding board members ranked approving and monitoring the hospital's strategic plan as one of their top three roles as a director: only "acting in the best interests of the hospital" and "ensuring quality patient care" ranked higher in importance. As well, almost all of the board members noted that they received information on the status of their hospital's progress in achieving its strategic plan once a year or more frequently.

Building on the approved strategic plan, the board should also oversee the hospital's development of a risk-management plan. The risk-management plan should identify and assess the significant risks that the hospital faces, and outline management's strategies for minimizing the identified risks. Best practices in governance indicate that the board should approve the risk-management plan and regularly monitor the hospital's risk-management activities. Almost all of the members responding to our survey stated that monitoring risk-management activities was either a "moderately" or "very important" part of their role. (Figure 3 illustrates a number of the challenges or risks currently facing hospital boards, as noted by board members in their responses to our survey.) However, over 30% noted that they received information once a year or even less often on their hospital's progress toward the achievement of its risk-management objectives and goals. Furthermore, only 58% indicated that the information

Figure 3: Selected Challenges Facing Hospital Boards

Source of data: Board Member Responses to Survey by the Office of the Auditor General of Ontario

financial constraints	Funding issues consume a significant amount of time of many hospital boards because they impact staffing levels and the patient-care services the hospital can offer
shortage of medical professionals	Inability to recruit medical and other professional staff also affects patient-care services
improved relations with the LHINs	There is a need for an improved relationship between some hospitals and their LHINs. For example, hospital boards would like better communication with their LHINs regarding funding and patient services
shortage of beds	Shortages of in-patient beds occur primarily because patients no longer requiring hospital care remain in hospital beds until appropriate alternative accommodation, such as in long-term-care homes, becomes available
infrastructure challenges	Some board members highlighted the need for expanded or renovated facilities to meet patient needs
changing patient population	The needs of a growing and/or aging patient population require significant ongoing board monitoring and adjustment of hospital-service levels
public perceptions	Hospitals experience difficulties in gaining community acceptance for proposed major changes to hospital activities

they received was "very useful"—most other board members stated that it was only "moderately" or "somewhat" useful. Responding to a survey question asking members to cite examples of best practices to share with other boards, one member highlighted the importance of focusing risk management on quality and safety matters as a key part of the board's focus on quality of care.

Access to Relevant Information for Decision-making

Hospital senior management provide board members with much of the information they use for decision-making. This information should be concise and understandable because too much information or data is as serious a problem as too little. As well, the information must be relevant to the decisions required and the alternatives the board members need to consider.

In addition to information on the hospital's progress in achieving its strategic plan, our survey indicated that board members generally received information in a number of areas on a regular basis, including:

- patient and staff safety;
- patient wait times;
- number of emergency department visits;
- number of beds occupied by individuals awaiting an alternative level of care, such as in a nursing home; and
- financial information, such as the hospital's budget versus actual expenditures.

Overall, the majority of board members responding to our survey found that the information provided to them for their meetings was useful. As well, a number of board members commented that their boards had established a standard package format for information, including key indicators of the hospital's performance that are tied to the hospital's strategic plan. This enabled board members to more easily review the information. However, a few members noted that some of the information they received, such as financial reports, was too lengthy to review effectively. Furthermore, despite the fact that the majority of board members found the information they received "useful," only 60% of respondents to our survey "strongly agreed" that they did not "rubber-stamp" decisions reached by hospital management and senior medical staff. An additional 35% "somewhat agreed" that they did not rubber-stamp decisions.

When asked to suggest improvements, board members responding to our survey noted a few common areas. While many board members stated that they could track their hospital's performance over time, they would also like to be able to compare its performance to that of other comparable hospitals—of a similar size and providing similar services—within their LHIN and province-wide. As well, a number of board members indicated that they would like additional information regarding quality of patient care and patient and staff safety.

To enable members to become familiar with the information and actively participate in related board discussions, board members should receive necessary information in time to review it before their meetings. Overall, 72% of responding members "strongly agreed" that they received information in enough time to prepare for board meetings; an additional 22% "somewhat agreed." A few members commented that their boards had required management to send information for the board meetings to members a specific period of time in advance of meetings so that members had sufficient time to review it.

Committees

Hospital boards generally establish a number of committees to focus on specific areas. These committees meet separately and report back to the board with summaries of issues and related recommendations. Typical hospital board committees include:

- executive;
- finance and audit;
- quality;
- human resource;
- information technology;
- community liaison;
- board recruitment/nominating; and
- governance.

In addition, the *Public Hospitals Act* requires all hospitals to have a Medical Advisory Committee, comprised of hospital physicians, which reports to the board.

In general, board members responding to our survey indicated that most of their committees were either "good" or "excellent" at fulfilling their duties and keeping their board informed of their activities. However, 32% of board members indicated that their information technology committee was either "fair" or "poor" at fulfilling its duties, and 24% said it was "fair" or "poor" at keeping the board informed of its activities. In addition, 16% said their community liaison committee was "fair" or "poor" at fulfilling its duties, with 14% also saying it was "fair" or "poor" in keeping the board up to date. Some respondents mentioned as best practices that their entire board meets as a committee on certain important issues; that committee members have specific experience related to the committee's area of responsibility; and that the board regularly reviews the committee structure to ensure that important issues are assessed in depth and to avoid duplication among committees.

Performance Evaluation

A board's overall performance, as well as the performance of each board member, should be evaluated annually. These evaluations are generally conducted by board members completing questionnaires about the board's processes and performance, and their own involvement with and contribution to the work of the board. The main purpose of these evaluations is to identify ways to improve the board's efficiency and effectiveness.

The 2007 OHA survey noted that about 85% of hospital boards evaluate their own performance. However, the 2007 governance survey of GTA hospitals, conducted as a result of the appointment of a supervisor at one GTA hospital, found that just under half of the GTA hospitals had such a process. Only 58% of members responding to our survey "strongly agreed" that their board had a reasonable process for evaluating its performance. Furthermore, 25% of the responding chairs noted that their board does not evaluate the performance of each board member. In fact, the GTA hospital survey noted that 82% of boards did not have an evaluation process for individual board members.

Best practices in governance also recommend that a board annually assess its CEO's performance against established expectations. Over 90% of the chairs responding to our survey indicated that their CEO's most recent evaluation compared actual performance with expectations. Furthermore, almost all the board members responding to our survey indicated that evaluating hospital management's performance was an important part of their role. However, only 63% of members "strongly agreed" that they were involved in evaluating their CEO's performance.

Other Governance Practices Noted

In our survey, we asked board members to indicate any key practices used by their board that they felt would be useful to share with other boards to assist them in better carrying out their responsibilities. Figure 4 contains a number of the practices put forward that we felt were worth highlighting.

RECOMMENDATION 1

The Ministry of Health and Long-Term Care should work with its stakeholders, including the Local Health Integration Networks (LHINs), to help ensure that hospital boards are following good-governance practices, such as:

- **recruiting board members with the required competencies and avoiding any conflicts of interest by, for instance, minimizing the number of non-legislated ex-officio board members;**
- **establishing effective processes for obtaining, when needed, community input that represents the views of the people the hospital serves; and**
- **requiring that management provide concise, understandable, and relevant information for decision-making, including periodic information on what progress the hospital is making in achieving its strategic and risk-management plans.**

As well, the Ministry should work with its stakeholders to develop a process for sharing best practices in governance among hospital boards province-wide.

MINISTRY RESPONSE

The Ministry supports this recommendation and will work with appropriate stakeholders, such as the Ontario Hospital Association (OHA) and others, to implement good-governance practices. Currently, the OHA has an established role and expertise in hospital good governance. The OHA provides information on this area to hospitals and regularly conducts workshops and publishes reports. The Ministry will continue to work with the OHA to disseminate governance best practices to Ontario's hospitals.

OVERSIGHT OF HOSPITAL BOARDS

Public Hospitals Act

The *Public Hospitals Act* (Act) was enacted in 1931. In 1992, a steering committee reviewed it at the request of the Minister of Health (as the Ministry was then known). The review recommended that the Act be rewritten rather than revised because of the significant changes in health care and the increased complexity of hospital management and operations that had occurred over 60 years. The committee specifically recommended that new legislation clearly define the responsibilities and accountabilities of hospital boards and the Ministry. The government subsequently made a few amendments to the Act, which, with related regulations, addressed such issues as liability protection and consistency of terminology between the Act and other legislation. However, the government has

Figure 4: Suggested Best Governance Practices from Hospital Board Survey

Source of data: Board Member Responses to Survey by the Office of the Auditor General of Ontario

board composition	• Advertise board vacancies and interview potential board members based on skill sets required by the board • Use the board-member selection process to screen out individuals from single- or special-interest groups who wish to be board members
roles and responsibilities	• Hold 30-minute board education sessions before scheduled board meetings to keep members up to date on various subjects, including hospital activities • Have board members visit various hospital program areas to ensure that they understand their hospital's various operational areas
involvement in strategic decisions and risk management	• Use a clear, concise performance "scorecard" that visually compares the hospital's performance to its strategic plan • Use a reporting system with pre-established indicators to regularly measure key aspects of the hospital's activities • Use trend information to identify areas of potential problems related to hospital activities • Encourage open and candid discussions, where all board members have an opportunity to speak • Hold in-camera board meetings without hospital management present • Use a precise work plan to ensure that the board focuses on key issues • Place key issues requiring decisions near the top of the meeting agenda to ensure that they are discussed
access to relevant information for decision-making	• Receive key reports a week in advance of board meetings so that members have time to prepare
committees	• Designate one day a month for major committees to meet, thereby ensuring that specific issues are addressed on a timely basis
performance evaluation	• Perform an annual board self-evaluation survey, give results to the board members, and act on the suggestions
oversight	• Have the LHIN regularly address the board, including an update on its plans and a discussion of any issues • Have the Ministry address the board annually, including an update on its plans • Increase the development and use of regional information-technology and procurement services to increase information sharing and reduce duplication and costs • Create a set of performance measures that all stakeholders agree with
other	• Co-operate with other health-care boards and share useful practices

not made most of the steering committee's recommended changes. Independent reports on hospital governance funded by the Ministry over the last five years have again recommended amendments to the Act in a number of areas, including many of the ones noted in the 1992 review. These include, for example, setting term limits for directors and facilitating competency-based recruitment. The Local Health System Integration Act has resulted in further changes to responsibilities for the management of health-care delivery in Ontario. However, both it and the *Public Hospitals Act* contain only a few sections addressing good-governance practices.

Local Health Integration Networks (LHINs)

As previously mentioned, as of April 1, 2007, the LHINs assumed responsibility for prioritizing, planning, and funding certain health-care services, as well as integrating the services of hospitals, long-term-care homes, mental health and addiction agencies, and other health-service providers. Hospitals retained their own boards and now report to the LHINs regarding most of their activities. The LHINs report to the Ministry.

Ontario is one of the few provinces in Canada in which hospitals still have their own individual boards—most other provinces eliminated them when they introduced decentralized organizations, such as regional health boards, for the delivery of health-care services. In May 2008, Alberta announced that it was eliminating its nine regional health authority boards, and replacing them with a single health-services board. There are different benefits to each of these approaches. For example, one benefit of having a board of directors at the hospital level is more direct oversight of the hospital's activities. One benefit of a regional board, without individual hospital boards, is the ability to more fully co-ordinate within the region the delivery of all health-care services, including those of hospitals. One single centralized board may be better suited to promote consistency of care and best practices across the province.

In the 2007/08 fiscal year, the LHINs became responsible for the accountability agreements that the Ministry had in place with the hospitals. Furthermore, as of 2008/09, the LHINs became responsible for negotiating the accountability agreements directly with the hospitals. These agreements generally outline both the hospital's and the LHIN's obligations. More specifically, the agreements include hospital service-level requirements—that is, specified targets to be met in key areas, such as patient access, quality of care, and safety. The agreements also include the hospital's funding and information to be reported to the LHIN quarterly and annually. As of August 2008, approximately 80% of hospitals had signed agreements with their LHINs for the 2008/09 and 2009/10 fiscal years.

With respect to ensuring that the required quarterly information is reported to their LHINs, 55% of board members responding to our survey indicated that they spent "limited" time or "no time at all" ensuring this was done. Furthermore, when asked about specific indicators required to be reported under the 2007/08 agreement, 22% said that they reviewed patient wait times only once a year or less often; 40% said they reviewed patient readmission rates versus expected readmission rates only once a year or less often; and 35% said they reviewed the number of full-time nurses once a year or less often.

Although hospitals now report directly to their LHINs on most matters, many board members responding to our survey stated that clarifying the relationship between their hospital, their LHIN, and the Ministry was one of their main challenges. We heard similar comments from LHIN officials and other hospital-governance experts. As one board member said of his or her LHIN, "It is a foggy relationship at best." Board members also indicated that there was a need to improve communications with the LHINs, including receiving more timely responses to requests and information to allow them to understand what hospital activities the LHINs monitor. In addition, board members would like more information about their LHIN's strategic plan so that they can align their hospital's strategic direction with it, where appropriate.

External Reviews

When a hospital is facing operational and financial difficulties, the board works with its LHIN to formulate a recovery plan. Depending on the extent of the difficulties, hospitals may also be subject to a peer review, or the appointment of an inspector, investigator, or supervisor. While LHINs can initiate a peer review, they can only recommend that an inspector, investigator, or supervisor be appointed:

the authority to appoint these individuals remains with the Minister under the *Public Hospitals Act*.

Peer Reviews

In 2004, the Ministry established a requirement that all hospitals budgeting a deficit submit a plan for eliminating the deficit by the 2005/06 fiscal year. In conjunction with this, the Ministry introduced a hospital peer review process whereby executives and physicians from hospitals with balanced budgets may be asked to review the operations of hospitals projecting deficits. The purpose of these reviews was to make recommendations that would assist the hospitals in eliminating their deficits. The Ministry co-ordinated these reviews until they became the responsibility of the LIHNs in April 2007. The specific operational areas reviewed are determined by the peer reviewer, the hospital, and the Ministry (prior to April 2007) or the LHIN. These areas could include a review of the hospital's organizational structure and administrative processes, including its budget and fiscal accountability processes and hospital board governance, as well as areas for possible savings and other sources of revenue.

An April 2006 ministry evaluation of the hospital peer review process noted that some peer reviews were not conducted as soon as they should have been, allowing financial problems to worsen before intervention occurred. The evaluation also noted that governance and related decision-making processes should be considered in all peer reviews because "when a hospital is off the rails, it all rolls up to the board."

Although a budget deficit may trigger a peer review, not all hospitals in a deficit position have been subject to a peer review. For example, according to their audited financial statements, 90 hospitals reported a deficit in the 2007/08 fiscal year; 50 of these hospitals also experienced a deficit in 2006/07. However, from 2004/05 through 2007/08, only 17 peer reviews were conducted in total. The Ministry informed us that hospitals experiencing relatively small deficits were not subject to a peer review and that, in the case of a few hospitals, the Ministry initiated its own investigation or appointed a supervisor.

We reviewed a sample of peer reviews and noted various issues that occurred at more than one hospital. These included capital projects commencing without proper planning and hospitals not adequately analyzing the impact of new clinical programs on their operations. The peer reviews also noted specific governance issues, such as board members not having the needed competencies. One recent peer review recommended that the hospital board adopt a code of conduct and establish a system for senior management to provide strategic information to the board.

While some of the peer review reports are publicly available to hospitals wishing to review them, the Ministry has no process in place to share with other hospitals the issues and associated recommendations arising from the peer reviews to assist them in proactively identifying such potential issues at an early stage.

Inspectors, Investigators, and Supervisors

Under the *Public Hospitals Act*, the Minister may appoint a hospital inspector, investigator or supervisor.

An inspector has the authority to enter a hospital to determine whether the provisions of the *Public Hospitals Act* and regulations are being complied with. Inspections were initiated by the Ministry's regional offices until these offices closed at the end of the 2006/07 fiscal year. The Ministry told us that, because of the closure of these offices, it has no information readily available on the inspections that were performed up to that time. As well, no inspections have been performed since 2006/07.

A hospital investigator or supervisor may be appointed where it is considered in the public interest to do so, such as when there are concerns about the quality of the hospital management and administration, the quality of patient care, or the availability of financial resources for the delivery of health-care services. An investigator makes recommendations for corrective action to the hospital's board and senior management, and also reports these recommendations to the Minister and the LHIN. A supervisor's powers, on the other hand, include the right to exercise all of the powers of the hospital's board and senior management, or, if the board is permitted to continue functioning, to require that any act of the board be approved by the supervisor. Supervisors report their findings and recommendations to the Minister. Between October 2006 and July 2008, the Ministry appointed investigators at three hospitals and supervisors at nine hospitals.

As with peer reviews, the Ministry indicated that there is no formal process for sharing the issues and associated recommendations arising from investigator or supervisor appointments. Such information could assist other hospitals in preventing similar situations from arising. However, the Ministry indicated that some of the investigator and supervisor reports are publicly available to hospital boards wishing to review them.

RECOMMENDATION 2

The Ministry of Health and Long-Term Care should:

- as recommended in various Ministry-initiated reviews, consider incorporating good-governance practices, including those that would facilitate competency-based recruitment and set term limits for directors, into future changes to legislation or other requirements;
- clarify the respective roles and responsibilities of hospitals, Local Health Integration Networks (LHINs), and the Ministry;
- encourage the LHINs to ensure that key information is shared between LHINs and hospitals to assist hospital boards in working effectively with the LHINs; and
- in conjunction with the LHINs, develop a process to summarize and share key issues and recommendations arising from external reviews—such as those from peer reviews, investigations, and supervisor appointments—to assist hospital boards in recognizing and proactively addressing similar issues at their hospitals.

MINISTRY RESPONSE

The Ministry will follow up as appropriate on this recommendation. Currently, there are many programs and processes related to this recommendation in place. For example, the *Local Health System Integration Act, 2006* provides direction to stakeholders on the roles of the Ministry, LHINs, and service providers. The Ministry-LHIN Accountability Agreements provide further direction about the parties' obligations. As well, the LHINs produce long-term strategic plans as part of their accountability framework. The LHINs have released their first Integrated Health Service Plans for the three-year period starting in April 2007. These plans and other information are posted on each LHIN's website and are readily accessible to hospital boards.

With respect to sharing issues and recommendations from external reviews, the Ministry meets monthly with the LHINs, at which time issues related to external reviews are discussed.

The Ministry will continue to work with the LHINs and other stakeholders to clarify governance-related issues.

Chapter 3

Section

3.12

Ministry of the Environment

Ontario Clean Water Agency

Background

The Ontario Clean Water Agency (OCWA) is a Crown Agency of the Province of Ontario established in 1993 under the *Capital Investment Plan Act*. OCWA's mandate is to provide reliable and cost-effective drinking-water and wastewater services primarily to municipalities on a cost-recovery basis, and to provide these services so as to protect human health and the environment. OCWA reports to the Legislature through the Minister of the Environment.

There are almost 1,200 municipal drinking-water and wastewater systems in Ontario. A drinking-water system includes the drinking-water treatment facility and the distribution system that delivers the water to homes and businesses. A wastewater system comprises a wastewater treatment facility and the collection system that delivers the wastewater to the facility. OCWA operates 24% of the municipal drinking-water systems and 36% of the municipal wastewater systems in Ontario, serving approximately 180 clients, most of which are municipalities. OCWA also provides services to a small number of commercial, industrial, and institutional facilities, as well as management oversight services for several First Nations communities. Other services provided by OCWA include project management for facility maintenance and construction, development of preventative maintenance procedures, capital improvement planning, and loan financing.

OCWA employs almost 700 staff, including facility operators, mechanics, engineers, and project managers. Five regional managers who report to the agency's head office in Toronto oversee 20 hub or satellite offices. The hub office structure is intended to provide economies of scale by reducing operation and maintenance costs for individual municipalities and by sharing management, administrative, and specialist support services. The geographical distribution of the regional and hub offices, including related water treatment and wastewater treatment facilities, is shown in Figure 1.

Figure 1: OCWA Regional and Hub Offices and Facilities

Source of data: OCWA

		# of Facilities		
Regional Office	**# of Hub Offices**	**Drinking-water**	**Waste-water**	**Total**
South Peel	0*	2	4	6
Waterloo	3	16	19	35
Western	5	36	47	83
Eastern	5	93	55	148
Northern	7	168	98	266
Total	**20**	**315**	**223**	**538**

* South Peel is OCWA's single largest client and accounts for over 10% of OCWA's operations revenue.

In 2007, OCWA generated revenue of almost $120 million and a net income of $6.6 million, which consisted of financing income of $7.9 million, offset by an operating loss of $1.3 million, primarily from the operation and management of water and wastewater facilities.

Audit Objective and Scope

The objective of the audit was to assess whether OCWA has adequate oversight and management procedures in place to ensure that it provides effective drinking-water and wastewater treatment services cost-effectively and in compliance with legislation and corporate policy, and that it measures and reports on its performance. The criteria used in our audit related to systems, policies, and procedures that OCWA should have in place, and were discussed with and agreed to by OCWA management.

The scope of our audit included discussions with staff at corporate, regional, and hub offices, as well as a review and analysis of relevant documentation, including data produced by OCWA's management information systems. We carried out our work at OCWA's head office in Toronto, one regional office, and three hub offices throughout Ontario. The Ministry's internal audit services had performed a number of audits at OCWA in the last two years. These audits included a review of the operations of five hub offices and a review of financial and internal control systems. We found these audits useful in finalizing the scope and extent of our audit work.

Our audit followed the professional standards of the Canadian Institute of Chartered Accountants for assessing value for money and compliance. We set an objective for what we wanted to achieve in the audit, and developed audit criteria that covered the key systems, policies, and procedures that should be in place and operating effectively. We discussed these criteria with senior management at the Ontario Clean Water Agency. Finally, we designed and conducted tests and procedures to address our audit objectives and criteria.

Summary

We found that the Ontario Clean Water Agency (OCWA) generally had adequate procedures in place to ensure that it provides effective drinking-water and wastewater treatment services. As well, OCWA has been making headway in achieving full cost recovery in the operations side of its business. Nevertheless, we identified a number of areas where further improvements could be made:

- A regulation under the *Safe Drinking Water Act, 2002* requires that drinking water be tested for over 160 substances such as *E. coli*, lead, and uranium. We reviewed water-quality testing at 15 OCWA-operated facilities and found that water samples were collected and tested by accredited laboratories, as required. Overall, 99.6% of water samples tested met legislated quality standards. While, on average, OCWA-operated facilities experienced more adverse drinking-water-quality incidents than other provincial drinking-water systems, they had relatively fewer microbiological incidents, which pose the greatest risk to human health. OCWA needs to determine what further actions are necessary to ensure that any systemic issues are identified and acted upon.
- Another type of water-quality incident is wastewater discharge into the environment when contaminants exceed the limits set by the Ministry of the Environment (Ministry). These incidents most commonly relate to the age of the wastewater facility or the design of the wastewater collection system. Although OCWA-operated facilities experienced fewer such incidents than the industry overall, it could further reduce these incidents by working with the Ministry and municipalities to prioritize the required upgrading or replacement of facilities and wastewater collection systems.

- To help monitor the facilities it operates for compliance with legislation, OCWA has implemented a facility assessment review and a more in-depth compliance audit process. While plans were developed to correct the compliance issues identified, these issues were often not corrected in a timely manner.
- The Ministry inspects drinking-water facilities annually and wastewater facilities every three years. In general, for significant issues of non-compliance, the Ministry issues a provincial officer's order. We found that, although OCWA accounts for only one-quarter of the inspections done by the Ministry, the facilities it operated accounted for over half the provincial officer's orders issued. Many of those orders were issued to facility owners (municipalities) and were related to the state of the facility.
- Drinking-water and wastewater facility operators are required to meet a number of educational and experience requirements and hold a valid certificate or licence. Over 10% of the sample of operators we reviewed were listed in OCWA's records as not having the proper certificate or licence. For example, some of these operators were listed as having expired certificates. Although we were subsequently provided with evidence that these operators held valid certificates, this is indicative of the need for more timely oversight of this area.
- Over the last five years, OCWA's expenses have increased only 2.8% annually, on average, and OCWA has been successful in reducing its operating deficit from $9.5 million in 2003 to $1.3 million in 2007.
- The majority of OCWA's 205 contracts to provide facility operating and maintenance services are for a fixed price over several years, adjusted for inflation. Consequently, OCWA bears the risk of any price increases above the rate of inflation. In addition, its margin or markup on direct costs may not be sufficient to cover all overhead costs. We found that some contracts did not even recover all direct contract costs.
- The employee travel expenses we tested were for legitimate business purposes and were properly approved. However, controls over the purchase of goods and services needed to be improved. For example, in contravention of its competitive purchasing policy, OCWA selected a vendor for a $3.7 million contract through an invitational rather than a public tender, and when the contract expired, it was extended without any competitive process.
- OCWA needs better information to adequately monitor its field operations. In addition, it needs to enhance the reliability and usefulness of its reporting to the senior management committee and the Board of Directors to assist them in effectively meeting their respective management and oversight responsibilities. We did note that OCWA has recently been successful in adding several well-qualified members to its Board of Directors.
- OCWA has developed a number of good performance measures during its business planning process, and has reported on these measures in its annual report, which is available to the public.

OVERALL OCWA RESPONSE

As an organization committed to delivering safe, reliable, and cost-effective services that our clients can trust, the Ontario Clean Water Agency (OCWA) appreciates the thorough audit by the Auditor General and is taking action to address all audit observations and recommendations within OCWA's ability to address.

OCWA has always strived to achieve 100% compliance with the regulations, guidelines, and objectives with a goal of continuous improvement each year. Our employees live and work in the communities that we serve and are personally committed to providing safe, reliable, and cost-effective services.

OCWA is proactive in its approach to providing quality service delivery. Before recent legislative changes that increased the requirements for operators of water and wastewater systems, OCWA had developed several management systems, processes, and tools that exceed the requirements of legislation in order to support our managers in delivering quality services. These include systems to record and track process data, environmental incidents, maintenance schedules, environmental management, and health and safety matters, as well as processes such as operational audits. Since OCWA does not own the facilities that it operates, it does not control the design and ongoing capital upgrading of the treatment plants and related infrastructure.

OCWA plans to continue building on its commitment to safeguard public health and the environment by defining its social-responsibility framework more clearly. This will build upon OCWA's existing role in supporting the efforts of the Ministry of the Environment in providing a safety net for Ontario's water and wastewater systems.

Detailed Audit Observations

DRINKING-WATER AND WASTEWATER TESTING

Drinking-water Testing

The *Safe Drinking Water Act, 2002* governs the operation and maintenance of drinking-water systems and was enacted in response to the report of the Walkerton inquiry, which made recommendations to ensure the safety of the water supply in Ontario. The Act provides for the protection of human health and the prevention of drinking-water health hazards through the control and regulation of drinking-water systems and the ongoing testing of drinking water. A drinking-water health hazard is a condition that endangers or is likely to endanger public health.

At the facilities operated by OCWA, its staff are responsible for routinely collecting water samples to be sent to accredited laboratories for testing. The frequency and type of testing required vary according to the type of drinking-water system, size of the population served, and water source. Depending on the nature of OCWA's responsibilities, tests can be performed on the water entering the treatment facility, on the treated water that enters the distribution network of pipes that distribute the water to users, and on the water at a sample of households or end users.

A regulation under the Act requires the testing of almost 160 substances to ensure that they do not exceed specified limits. The substances tested fall within five broad categories:

- microbiological—all types of coliform bacteria such as *Escherichia coli (E. coli)*
- chemical—78 different chemicals such as arsenic, lead, and mercury
- radiological—78 substances such as radium and uranium
- physical—features such as temperature and alkalinity (pH or acidity level)
- aesthetic—several different attributes including taste, odour, and clarity

Tests are carried out to determine if the levels of contaminants exceed Ontario's drinking-water-quality standards. Certified operators working at OCWA-managed facilities collect samples and send them for testing to accredited laboratories licensed by the Ministry. The turnaround time for *E. coli* testing is about two days, whereas more complex testing can take up to two weeks.

We reviewed three months of water-quality tests for 15 drinking-water facilities to ensure that samples were collected and tested in accordance with legislated requirements. We found that water samples were taken in accordance with regulations, with the exception of minor discrepancies. We were informed that no adverse effects resulted from any of the minor discrepancies noted. We also found that OCWA was using licensed laboratories to analyze all drinking-water samples tested. No problems were noted with the turnaround times for receiving test results.

Although we did not note any major problems in our review of OCWA's drinking-water testing, any non-compliance could have serious consequences. Therefore, the Ministry collects data on all municipal residential drinking-water systems. We assessed the performance of OCWA-operated facilities against the performance of those operated by other entities such as in-house municipal systems and private-sector service providers. On the basis of information provided by Ontario's Chief Drinking Water Inspector, we noted that 99.6% of OCWA drinking-water samples tested met legislated standards for quality, which is slightly less than the average of 99.9% for all other drinking-water systems operated either directly by municipalities or by private sector operators. On a positive note, OCWA had fewer microbiological exceedances, which historically have been the biggest threat to human health.

Adverse Drinking-water-quality Incidents

As Figure 2 shows, there were more incidents per facility where contaminants and other non-compliance attributes did not meet water-quality standards at OCWA's 173 drinking-water treatment facilities than at the other 534 facilities in the industry. However, most drinking water contaminants are present in the source water that is supplied to the treatment plant. Removal of contaminants to prevent adverse water-quality incidents is related not only to the proper implementation of operational procedures but also to the design of the treatment plant. The operator often has limited control over the quality of the source water or the capacity of the treatment plant to remove adverse attributes. We were informed that the operator can exercise the most control over microbiological exceedences since procedures and treatment plants are designed to identify and treat such incidents. In contrast, chemical, radiological, and physical and aesthetic exceedences can result from treatment plants that do not have the technological capability to remove such attributes.

Contaminants in drinking water can pose a serious risk to human health. Therefore, a timely response for corrective action is required. The Ministry has established a notification protocol that all system owners and operators must adhere to when they discover any indicators of adverse drinking-water quality: laboratories and drinking-water system owners/operators must immediately notify the Ministry's Spills Action Centre and the local Medical Officer of Health and outline the actions taken to correct the situation. This is to be followed up with written or electronic notification within

Figure 2: Exceedances in Drinking-water Quality Standards, 2006/07 Fiscal Year

Source of data: Ministry of the Environment

	# of Incidents		Incidents per Facility	
Category	OCWA (173 Facilities)	Other (534 Facilities)	OCWA	Other
microbiological	145	530	0.838	0.993
chemical	97	175	0.561	0.328
radiological	0	1	0.000	0.001
physical/aesthetic*	570	1,055	3.295	1.976
Total	**812**	**1,761**	**4.693**	**3.298**

* Aesthetic exceedances do not have to be reported to the Ministry unless they pose a risk to human health. For example, a high sodium content may be harmful to some people.

24 hours. Finally, within seven days after the issue has been resolved, a written notice summarizing the action taken and the results achieved is to be provided to the Spills Action Centre and the local Medical Officer of Health.

We followed up on all adverse results occurring in the three-month period we reviewed for 15 OCWA-operated drinking-water facilities and noted that in all instances OCWA had followed the notification protocol set by the Ministry. OCWA had established procedures and training to ensure that operators understand and follow the Ministry's notification protocols. In addition, we found that OCWA had put disciplinary measures in place to deal with employees identified as failing to take samples or send samples to the lab, or failing to record the proper sampling times. As demonstrated by the incident in Walkerton, which had a municipally operated system, such firm actions are necessary given the potential consequences of adverse water-quality incidents.

OCWA is required to produce drinking-water-system annual reports for facility owners, which are usually municipalities. Reports must include details of water-quality sampling for that year, including the number of samples taken and test results. During our review, we noted errors in the reported number of samples tested in two of the 15 municipal annual reports reviewed. It is important that information in the annual reports be accurate, since facility owners may use these reports for decision-making purposes and they must be made available to the public.

Monitoring of Drinking-water-quality Testing

Each hub office has one or more compliance technicians who monitor water-quality testing to ensure that all required samples are taken properly and sent to the lab for testing, and that prompt action is taken to deal with any adverse test results. However, there are no standard policies or procedures for technicians to follow to track and monitor sampling activity. The practices followed varied among hub offices and also within hub offices that had more than one technician.

Although there are no corporate guidelines in place, some offices developed very good monitoring practices. We saw technicians who prepared a customized sampling schedule for each facility and updated the schedule for applicable changes in regulations and guidelines. Each time an operator was required to take a sample, the technician forwarded a "chain of custody document" to the operator specifying how that sample was to be taken. After the sample was taken, the operator would sign the document and send the sample and the document to the lab. The operator would also send a copy of the signed document to the technician as evidence that the sample had been taken. Some technicians maintained their own control logs to check off when testing documents were received from operators and test results received from the labs. Other compliance technicians only logged test results on a spreadsheet and at the end of the month assessed whether all samples had been taken.

Many labs transmit their test results electronically to OCWA's management information system, while other labs send them manually for OCWA staff to enter into the system. Technicians are responsible for reviewing the lab results in the management information system for accuracy and then "locking" the results at the end of the month to ensure that results cannot be altered. At each of the hub offices we visited, every one of the facilities we reviewed had not locked lab results into the system for at least one month in 2007. For several facilities, lab results had not been locked in for the entire year.

RECOMMENDATION 1

To help further reduce the risk of drinking-water health hazards, OCWA should:

- **formally review adverse water-quality incidents to determine whether there are any systematic issues necessitating changes to its operating procedures;**

- improve procedures to help ensure the accuracy of data presented in annual reports to system owners and the public;
- utilize the best practices developed by local offices to standardize policies and procedures for compliance technicians to follow when tracking and monitoring drinking-water samples tested; and
- ensure that lab results are locked into the system on a monthly basis, as currently required.

OCWA RESPONSE

OCWA appreciates the Auditor General's comments with respect to reporting on water-quality incidents and microbiological exceedances, which have historically posed the biggest threat to human health and over which the operator has the most control. With respect to microbiological exceedances, OCWA outperformed the rest of the industry. Successful treatment of other attributes that may be present in source water is largely dependent on facility design and is therefore often not within the control of the operator.

OCWA has recently initiated a process to review and enhance its reporting to identify any systemic issues that may exist, to ensure that best practices are communicated throughout OCWA, and to better support senior management and the Board of Directors in exercising appropriate oversight over OCWA operations.

Wastewater Testing

The *Ontario Water Resources Act* governs the operation and maintenance of wastewater systems. Unlike drinking-water systems, wastewater systems are not subject to any water-quality testing requirements. The requirements for testing the quality of the wastewater, as well as for the frequency of sampling and the discharge limits for specific substances, are outlined in a Certificate of Approval issued by the Ministry for each facility. This certificate imposes a legal requirement on the facility to comply with its requirements or other ministry guidelines.

The Certificate of Approval lists acceptable levels of contaminants in the treated water leaving the sewage plant. These levels may be specified as a daily limit, a monthly average concentration, or a yearly average concentration. The limits are unique to each facility according to its design. If a facility does not have a Certificate of Approval, then ministry guidelines on wastewater treatment, sampling, and analysis are applicable. Samples for testing are generally taken from the point where the raw sewage enters the facility and the point where the treated sewage (final effluent) is discharged into a receiving body of water such as a lake or river.

We reviewed three months of water-quality tests for 15 wastewater facilities to ensure that samples were collected and tested in accordance with applicable requirements. In general, we found that wastewater samples were taken in accordance with guidelines or Certificates of Approval. In addition, OCWA was using licensed laboratories to test wastewater samples, even though it is not required to do so. There were no problems with the turnaround times for receiving test results.

An adverse test result for wastewater is the presence of a contaminant in the final effluent that exceeds the limit set out in a facility's Certificate of Approval. The procedures to be followed when this occurs are documented in each certificate and are relatively consistent from one certificate to the next. OCWA is required to provide verbal notification to the Ministry as soon as possible, and in writing within seven days of the event. We reviewed a sample of adverse test results at the 15 facilities we tested and found that all incidents were eventually reported, but a number of results were not reported on a timely basis as required by the applicable Certificate of Approval.

To monitor wastewater discharges that are out of compliance with the legal limit specified in a Certificate of Approval or guidelines, the Ministry requires the reporting of all out-of-compliance discharges as well as wastewater bypasses and overflows. A bypass is the diversion of sewage from the treatment process and its discharge into the environment without being fully treated. An overflow most often occurs during periods of higher than normal rainfall, when the amount of wastewater that flows through a treatment facility exceeds the maximum amount of water that the plant was designed to handle. As shown in Figure 3, for the 2006/07 fiscal year, OCWA's 163 facilities overall experienced fewer bypasses, overflows, and discharge exceedances on average than the other 296 facilities in the industry.

We selected a few types of incidents such as bypasses and discharge exceedances and followed up with facility managers for an explanation of the causes of the incidents, as listed in Figure 4. The managers noted the following reasons for such incidents:

- Wet weather was the cause of many of the bypasses. Some municipalities still have collection systems that carry both sewage and rainwater. In this case, the entire flow goes to a wastewater treatment plant. During storms or snowmelts, the volume of water entering a treatment plant may exceed the plant's capacity. As a result, certain treatment processes within a plant may be bypassed to avoid damage to the facility and personal property (for example, when sewage backups cause basement flooding), and the water is released into the environment untreated or partially treated. When there are separate pipes for storm water and sewage waste, storm water goes directly to the receiving body of water and only sewage water goes to the treatment plant.
- We were advised that the age of facilities was also a common reason for non-compliance. According to operations managers, about one-third of the facilities where age had been cited as the cause of an incident had been recently upgraded or were in the process of being upgraded. There were no plans to upgrade the remaining facilities in the near future. However, operations managers produced documentation showing that they had notified the owners regarding the state of the facilities.

We were told that the main reason for not upgrading water collection systems and aging facilities was a lack of funding. In many cases, those systems serve small municipalities that find the cost of building a new system or facility or upgrading old ones too high. In these circumstances, infrastructure loans or funding may be necessary to finance such major projects.

Biosolid Testing and Dispersal

Wastewater facilities produce treated sewage water—which is discharged into nearby waterways—and sewage biosolids. Sewage biosolids are disposed of through landfill or incineration, or are further processed for application to farmland as

Figure 3: Adverse Wastewater Incidents, 2006/07 Fiscal Year

Source of data: Ministry of the Environment

	# of Incidents		Incidents per Facility	
Type	**OCWA (163 Facilities)**	**Other (296 Facilities)**	**OCWA**	**Other**
bypasses reported to MOE*	253	757	1.55	2.56
overflows reported to MOE*	111	423	0.68	1.43
discharge exceedances	126	291	0.77	0.98
Total	**490**	**1,471**	**3.01**	**4.97**

* MOE: Ministry of the Environment

Figure 4: Reasons Cited for Non-compliance Incidents

Source of data: OCWA

Reason Cited	% of Incidents
combined storm and wastewater sewers	45
age of facility	35
suspected data entry errors	10
other	10

fertilizer. The land application of biosolids is regulated under the province's *Nutrient Management Act, 2002*. It is the responsibility of the wastewater facility owner or the operating authority (OCWA) to ensure the safe and adequate final disposal of wastes generated at their facilities.

Biosolids make good fertilizer, but they contain fecal coliform and other bacteria. Consequently, biosolids can only be applied up to a certain capacity to farm sites approved through a Certificate of Approval issued by the Ministry. Application in excess of capacity could cause significant environmental damage through groundwater contamination and runoff into nearby rivers and lakes. Ministry guidelines require sewage treatment plants to maintain records that include the amount of biosolids applied to each field. To prevent environmental damage, biosolids intended for land application must be tested for the presence of 11 different substances, including arsenic, lead, and mercury. Testing on samples should be performed twice a month while the biosolids are being applied and for the two months preceding application.

We reviewed the handling of biosolids at a sample of OCWA-operated wastewater facilities. We found that all farm sites where the biosolids were applied had a Certificate of Approval issued by the Ministry, the frequency of biosolid sampling was appropriate, and the metal content tested within acceptable limits. However, biosolid haulage records were incomplete for several of the facilities tested. For example, some daily records could not be located, haulage records had not been fully signed off, and insufficient information was available to determine if the amount of biosolids applied to each site was within the capacity specified in the Certificate of Approval.

RECOMMENDATION 2

To help protect the environment from the effects of untreated or partially treated wastewater and biosolids, OCWA should:

- identify the causes of all incidents of discharge exceedances, bypasses, and overflows to determine if there are any operational measures that could be taken to reduce such incidents;
- periodically report to the senior management committee and the Board of Directors on the details of the incidents and what potential actions OCWA could take to help correct the situations identified; and
- develop standard policies and procedures to ensure that the amount of biosolid material removed from its facilities is accurately recorded and applied to land within the amounts specified in the sites' Certificates of Approval.

OCWA RESPONSE

OCWA accepts the Auditor General's recommendation. OCWA regards its role as an operator of wastewater systems as an important one and approaches the operation and maintenance of these facilities with a keen understanding of the design of the facilities and an appreciation for the different operational challenges and threats that may result from environmental conditions or circumstances that develop over time. OCWA works with the owner and reports to the regulator on bypasses and operational exceedances, particularly where infrastructure is a factor. In operating wastewater systems, OCWA has procedures in place to help ensure compliance with the requirements set out in regulations, guidelines, and

Certificates of Approval that include processes for bypasses and discharges.

OCWA continues to make progress on addressing the new regulatory framework for nutrient management. We are moving forward, in partnership with our municipal clients, with strategies to address biosolids from medium and small wastewater treatment plants, and to improve the existing monitoring tools, training, and procedures to ensure that biosolids applied to land are within regulatory limits.

Figure 5: Facility Assessment Reviews, 2004–2007

Source of data: OCWA

	2004	2005	2006	2007
assessments completed	426	420	410	403
problems identified	2,411	1,721	2,095	2,173
problems recorded as rectified	2,411	1,721	2,095	702
problems outstanding	0	0	0	1,471
% of Issues Not Addressed	**0**	**0**	**0**	**68**

Note: data as of March 2008

FACILITY MONITORING AND COMPLIANCE

Facility Assessment Reviews

Compliance with regulatory and corporate requirements is monitored internally by OCWA through its Facility Assessment Reviews (FARs). These self-assessments are performed annually at each facility by the local operations manager or a designate, usually the compliance technician. FARs are intended to identify areas of concern and opportunities for improvement at the facilities OCWA operates. Where deficiencies are identified within a facility, the required actions to resolve the problem are recorded. Figure 5 presents statistics on FARs for the last four years.

Approximately 2,000 required actions are noted every year to address violations identified during the reviews. Although many of the 2007 reviews may have been done in the latter part of the calendar year, as of mid-March 2008, OCWA's management system noted that 1,471, or 68%, of the problems from 2007 had still not been addressed. Since the majority of 2007 problems were still outstanding at the time of our audit, we reviewed the 2006 results in more detail and noted that the average time taken to correct problems from the time they were first identified was seven months.

According to OCWA annual statistics, the most common deficiencies for 2007 were in the areas of health and safety, facility emergency planning, and hazardous materials. Deficiencies were also noted in equipment inspections and testing, chemical dosage measurement, and drinking-water-systems regulation. Although required actions are given a priority rating, these annual statistics give no indication of the severity of the concern; as a result, it is unclear whether the deficiency poses a risk to public health or whether it is an administrative matter, such as failure to complete the proper paperwork. Without such information, it is difficult for senior management to assess facility performance and to determine whether problems, especially the more serious ones, are corrected within a reasonable length of time. For instance, while seven months may be acceptable for minor problems, it would be unacceptable for significant issues.

In order to determine whether the same facilities were responsible for similar non-compliance issues year after year, we selected a sample of facilities that had had a more comprehensive audit done in either 2006 or 2007 and compared those results with results from FARs for the last five years. For most of the facilities tested, about one-quarter of all non-compliance issues raised had been identified previously. However, it is not possible to determine if the problems reappeared after having been corrected or if, rather than actually being corrected, were simply carried forward in the next year's review. Nevertheless, the trend suggests that more attention needs to be paid, at the facility level, to identify and correct recurring problems. As well, this is another area where we feel summary reporting to the senior management committee and the Board of Directors would be useful.

OCWA Compliance Audits

Compliance audits, which cover the same areas as FARs but are more comprehensive, are performed on a sample of facilities by staff from OCWA's Risk, Compliance and Training Division. Local operations and regional managers are responsible for correcting by the established deadlines the deficiencies that the audits identify. Figure 6 shows the number and status of compliance audits done over the last four years.

While this is a good quality assurance process, we noted that as of March 2008, over 90% of deficiencies noted in 2007 had not yet been addressed. Also, a substantial number of issues were outstanding from earlier years. Even though regional managers informed us that they regularly review status reports on compliance audits, the number of outstanding items recorded in the system suggests that more comprehensive oversight and follow-up are required to ensure that deficiencies are corrected.

OCWA has established a methodology for selecting facilities for compliance audits. According to OCWA policy, half of the selections are made by regional managers using a risk matrix that considers factors, such as the number of people served by a facility and the facility's previous compliance record. The risk matrix must be scored and documented for each facility, and the highest-scoring facilities should be selected for audit. The other half are selected by the Director of the Risk, Compliance and Training Division with input from corporate office. The rationale for selecting them must also be documented; typically, it considers factors such as staffing changes and the age of the facility. We reviewed the actual selection process used in 2006 and 2007 and noted the following:

- There was no documented justification for the number of facilities selected for audit in total or for each region. During the last four years, the total number of audits has ranged from 29 to nine in 2007. According to OCWA, the number of compliance audits done depends on the availability of resources. In 2007, we were informed that compliance staff performed a significant amount of work in areas other than compliance auditing. Nevertheless, the low number of nine audits performed in 2007 may not be sufficient to make the process effective.
- The risk matrix assessments were not completed as required. They were completed by only one of the five regions in 2006 and by two regions in 2007. Where the risk matrix was completed, the scores given were not always assigned in accordance with the established scoring method, and the facilities rated as the highest risks were not always selected for audit. For example, in one region, 33 facilities scored higher, and were assessed as greater risks, than a facility selected for audit. There was no documentation on file to justify the selection of this facility as opposed to the facilities ranked as a greater risk.
- The original target dates set to correct problems noted during compliance audits are not being adhered to. Since 94% of deficiencies noted in audits completed in 2007 were still outstanding at the time of our audit, we reviewed the 2006 results. The average target date set to address deficiencies was four months. However, we noted that, in the cases

Figure 6: Compliance Audits, 2004–2007

Source of data: OCWA

	2004	2005	2006	2007
Audits	**29**	**26**	**21**	**9**
Issues Identified	**664**	**343**	**221**	**85**
issues addressed	578	254	158	5
issues outstanding	86	89	63	80
% of Issues Not Addressed	**13**	**26**	**29**	**94**

Note: data as of March 2008

where deficiencies noted in 2006 compliance audits were corrected, it took an average of eight months to do so.

Ministry Inspections

The Ministry of the Environment inspects drinking-water systems every year and wastewater systems every three years. An inspection follows a standard protocol to verify that the facility is in compliance with the applicable legislation. The ministry inspector visits the facility and assesses the effectiveness of the treatment, checks the system's monitoring procedures, performs limited water sampling, verifies staff certification, and evaluates overall operational practices. An inspection report is subsequently issued that may result in provincial officer's orders for significant issues of non-compliance or a report detailing required actions for deficiencies of lesser severity. A provincial officer's order may note more than one compliance issue. Figure 7 presents statistics on ministry inspections of OCWA-operated facilities. Since a portion of the system may not be OCWA's responsibility (for example, where OCWA runs the treatment facility but not the distribution system), only results for which OCWA has either sole or joint responsibility are included.

Overall, a significant number of non-compliance issues that required action have been noted at OCWA-operated facilities. Non-compliance issues were found in over half of the facilities inspected. On a positive note, the trend over the last four years is a decline in the most serious issues, which are noted in provincial officer's orders. However, although OCWA has made progress in reducing the most significant concerns, OCWA-operated facilities received over half the orders issued, as shown in Figure 8.

We analyzed the time taken to address non-compliance issues identified in ministry inspection reports for a sample of inspections conducted in 2006 and 2007, and noted that for issues that were the sole responsibility of the operator, only about half had been resolved by the compliance date set by the Ministry. The average time taken to correct problems from the time OCWA received the inspection report was over three months, and at the time of our audit some actions required by inspections made in 2006 had yet to be resolved.

OCWA enters data from ministry inspection reports into its compliance information management system. However, ministry inspection reports often do not indicate which section of the legislation or regulation has been violated. Consequently, OCWA staff interpret the inspection reports and summarize the issues themselves. As a result, OCWA has developed its own categories for classifying non-compliance issues. However, we found that the categories were often too broad to provide useful information on the type and seriousness of issues. Such information could provide senior management with useful reports that could be used to monitor compliance and ensure that facility staff correct deficiencies in a timely manner.

Figure 7: Drinking-water and Wastewater Facility Inspections, 2004–2007
Source of data: OCWA

Calendar Year	# of Ministry Inspections	# of Non-compliance Issues Noted in Provincial Officer's Orders	# of Additional Non-compliance Issues Noted in Ministry Inspection Reports	Total # of Non-compliance Issues
2004	259	125	94	219
2005	206	72	289	361
2006	211	25	323	348
2007*	192	27	260	287

* Does not include the results of 10 inspections that year because OCWA had not yet received those inspection reports.

Figure 8: Provincial Officer's Orders Issued at OCWA-operated and All Other Facilities, 2006/07 Fiscal Year

Source of data: Ministry of the Environment

	OCWA-operated Facilities	All Other Facilities
# of inspections conducted	238	669
# of provincial officer's orders issued	21	17
% of inspections conducted	26.2	73.8
% of provincial officer's orders issued	55.3	44.7

RECOMMENDATION 3

To help ensure compliance with environmental, health, and safety requirements and to ensure that the significant and recurring problems identified are promptly corrected, OCWA should:

- review its compliance audit process to make sure that a sufficient number of facilities are selected for audit, and that those facilities rated as the highest risk are selected, or document the justification for any alternative selection;
- rank and/or record deficiencies noted in facility assessment reviews, compliance audits, and ministry inspections by type and significance to ensure that the most serious problems are dealt with expediently;
- assess the cause of recurring problems and consider means, such as additional staff training, to help prevent their recurrence; and
- prepare ongoing reports for the senior management committee and the Board of Directors, outlining the frequency, type, and severity of issues raised and the status of corrective actions.

OCWA RESPONSE

OCWA thanks the Auditor General for his comments in the area of Facility Assessment Reviews (a voluntary, proactive program), compliance audits, and ministry inspections. In order to further improve the value of these programs, we have introduced a more rigorous, risk-based approach to the selection of facilities for compliance audits and to ensure that problems identified in the audits are corrected on a timely basis.

OCWA will continue to work with our municipal clients to prioritize and respond in a timely manner to any non-compliances identified, to identify the root cause of recurring issues, and to develop action plans for responding accordingly. Existing reporting to senior management and the board has been enhanced to capture and report more detail related to the frequency, type, and severity of issues raised and status of corrective actions identified.

FACILITY MAINTENANCE AND REPAIRS

Many of the 500 drinking-water and wastewater facilities operated by OCWA were at one time owned by the Ministry of the Environment and subsequently by OCWA. In 1997, the province transferred ownership of these facilities to the municipalities. Some were old and in need of significant upgrades, and others had problems that require significant financial investment to repair. Since much of the continuous monitoring of drinking water and wastewater is automated, it is important that facilities and equipment be properly maintained to provide accurate readings and warn operators of potential water-quality problems. If assets are not properly maintained, water quality may be jeopardized. Both the municipality and OCWA could be held responsible for the human costs of such events or any damage to the environment.

According to standard customer contracts, OCWA is required to record information on adverse water-quality incidents, the frequency of equipment breakdowns, and repair costs. Data on major pieces of equipment are entered into OCWA's maintenance management systems. Schedules or work orders are prepared monthly by facility for each piece of equipment listed in the system. These schedules are distributed to the appropriate operators, who are required to conduct monthly preventative maintenance checks. Such maintenance is necessary to demonstrate that equipment has been maintained in accordance with manufacturer's standards.

We reviewed a sample of maintenance work orders and found that equipment maintenance was often not performed as required. Specifically:

- Only one-third of the maintenance work orders sampled had evidence that preventative maintenance work was completed as scheduled. For the remaining work orders, maintenance was performed late or, for at least one month in the year, there was no evidence that maintenance had been done. For example, an ultraviolet light used to disinfect wastewater had no evidence of testing for nine out of 12 months in 2007. We were informed that operators may perform maintenance work, record it manually, and input it into the system at a later date. However, this precludes management follow-up to ensure the timely completion of required maintenance.
- The maintenance system reported that for 2007, one hub had over 1,100 incomplete and 130 outstanding work orders. Three facilities out of the 538 that OCWA operates accounted for over half of the work orders returned incomplete. We were informed that some work orders may not be applicable and staff are not able to delete them from the system. In such situations, management should follow up to determine the cause of so many outstanding work orders and rectify the situation.
- We found a number of examples where two or more monthly maintenance work orders were signed off in the same month for the same piece of equipment. For example, the maintenance work orders for an alarm for the months of March to September were all signed off in October. At another facility, the operator told us that he does a visual check daily and that he sometimes signs off work orders for multiple months all at once due to time constraints. This provides no assurance that maintenance was done as required.
- The maintenance management system for one region does not identify individual pieces of equipment. Consequently, the preventive maintenance work order lists areas in the facility that need to be checked. This does not provide any assurance that all of the equipment in the area is maintained as required.
- Repairs to equipment are documented using corrective work orders. Ten facilities accounted for half of all corrective work orders issued in 2007. We were informed that the reason for the high incidence of required repairs was breakdowns that were due primarily to the age of the facilities and poor plant design. We also noted that 10% of corrective work orders issued in 2007 were entered without the organization unit number that is used to identify a facility. If this information is missing, OCWA cannot do a complete analysis to highlight facilities that may need extensive capital upgrades.

We also found a number of best practices used by various hub offices to help ensure that work orders are completed as required: for example, one hub had a policy that all work orders were to be completed and returned by the 10th of the month, and one office held a special training session for its operators to emphasize the importance of, and the proper procedures for, completing work orders.

RECOMMENDATION 4

To ensure that facilities and equipment are maintained in good working order, OCWA should develop a quality-assurance process to verify periodically that regularly scheduled maintenance is completed and documented as required.

OCWA RESPONSE

We acknowledge the Auditor General's comments regarding the shortfalls in the documentation of maintenance work completed by our staff. We have introduced improvements to the reporting of outstanding work orders. These reports are used to support the operations committee and decisions made by the senior management committee and ensure that all hubs are meeting goals and objectives with respect to scheduled maintenance activities. In this regard, OCWA's work management system is a continuously evolving system that is changed as new legislative or regulatory requirements are introduced.

In order to further improve the tracking of maintenance work, we will review all work orders and undertake an assessment of the applicability of each one, using a risk-based approach, and eliminate any work orders that are not applicable to the particular facility.

STAFF CERTIFICATION, LICENSING, AND TRAINING

Staff Certification and Licensing

The licensing and certification requirements in the regulations to the *Safe Drinking Water Act* and the *Ontario Water Resources Act* help to ensure that facilities are operated by knowledgeable and experienced staff. Operators of drinking-water systems must be certified, and operators of wastewater systems must be licensed. Operators are required to renew their certificates and/or licences every three years.

Each type and level of subsystem has a certificate or licence. There are generally two types of drinking-water subsystems—treatment plants and distribution systems; and there are two types of wastewater subsystems—treatment plants and collection systems. Each type of subsystem is classified on a scale from level one to four, four being the highest level, according to operational complexity and population served. Operators are normally required to have more than one type of certificate and/or licence, since they generally work in more than one type and level of facility.

We assessed whether facilities were staffed with operators holding valid certificates or licences for the type and level of the facility operated. OCWA maintained a list of operators and the certificates and licences they held, but this list did not include the names of all the facilities they operated. Therefore, we reviewed licences and certificates in the four areas we visited, which operated 90 facilities and had a total of 112 operators, to determine if all operators held the proper type and level of certificate and/or licence for the facilities they operated. We had the following observations:

- Over 10% of operators working on site at facilities were not listed as having the certificate or licence required for the type of subsystem they operated. For example, four operators working in a water treatment plant were listed as having expired drinking-water treatment-facility operator's certificates. Although we were subsequently provided with evidence that these operators held valid certificates, in other such situations, staff are assigned to non-operational duties, which is not a fully productive use of staff.
- OCWA noted that it is difficult to find qualified operators and that operators tend to maintain the minimum level of certification or licence required (that is, from level one to four). OCWA has adjusted its compensation structure to encourage operators to upgrade their skills by offering higher wages (10 to 50 cents more per hour) for higher certification levels. This has resulted in an increase in the overall licence and/or certification levels of staff. Additional compensation or other incentives may be necessary to maintain this trend.
- The regulations require that at least one operator hold a certificate and/or licence

of the same level (one to four) as the level of the facility. In order to comply with the regulations, each facility is assigned an overall responsible operator (ORO) who has the appropriate level of certification and/or licence. We found situations where the designated ORO may not have been the best alternative. For example, in a hub with two level-three water distribution systems, an employee from another office with a level three certificate was designated as the ORO. The ORO can be off site but must be able to respond immediately and effectively to an emergency. It might be difficult for this ORO to fulfill his duties should an emergency arise, especially since this person worked in an office two hours away by road, was not required to visit the facilities, and did not receive reports on the facilities.

Staff Training

All drinking-water and wastewater operators are required to complete a minimum number of hours of training each year in order to meet regulatory requirements. By agreement with system owners or by regulation, OCWA is responsible for ensuring that every operator completes the required number of training hours. As a condition of certificate renewal, drinking-water-system operators are required to have an average of between 20 and 50 hours of training annually over a three-year period, depending on the complexity of the systems they operate. Wastewater-system operators are required to attend 40 hours of annual training, regardless of the type or class of licence they hold.

The type of training for wastewater operators is not specified in regulation, but drinking-water-system operators must have a minimum number of hours of approved training related to drinking water and may accumulate on-the-job training hours in areas such as equipment demonstration and safety training. The province's requirements are less stringent than the requirements of British Columbia and Alberta, which specify relevant training hours for both water and wastewater operators and require that training be completed before certificate or licence renewal for all types of operators.

Overall, we found that the management information system available to senior management to track whether certified and licensed operators were completing the required hours of training was inadequate. Specifically:

- The system generates a report by region that highlights the number of employees who have not achieved 40 hours of training. (For 2007, 22% of OCWA's operations employees had not received 40 hours of training.) The report is inadequate for monitoring purposes because it does not reflect the fact that drinking-water-system operators need between 20 and 50 hours of training, depending on their certificate, and the fact that the hours are to be averaged over a three-year period. Furthermore, the system records all training hours reported and does not distinguish those hours that are relevant for certification or licensing purposes.
- We found that management monitoring of training hours had a direct impact on whether the staff regularly received training. In one hub where there was evidence that training hours were properly tracked, about 80% of the operators had completed sufficient training hours for 2007 to consistently accumulate the training hours required to renew their certificates and/or licences. In another hub office where there was no evidence of any tracking by hub staff, operators were not regularly receiving training hours. Consequently, these operators may have to accumulate a significant number of training hours in the third year in order to renew their certificates and/or licences. As well, the intent of the training requirement is to ensure that operators continuously upgrade their knowledge.
- With a few exceptions, training records at the three hub offices we visited were generally

entered correctly into the system. However, practices for completing and entering training records varied widely among the three hubs we visited. At one hub, all training for the sample selected was properly supported by training records signed by both the operator and the hub manager. At another hub, many training records could not be located. At the third hub, training records were prepared only for courses provided internally at the hub.

RECOMMENDATION 5

To help ensure that staff have the educational and experience requirements necessary to maintain their certificates and licences, OCWA should:

- include on its list of operators and the certificates and/or licences they hold the level and type of all facilities they operate to help management ensure that operators have the appropriate type of certificate and/or licence for the facilities they work at;
- consider implementing additional incentives to encourage operators to upgrade their qualifications at least to the level of the facilities they work at;
- ensure that only staff who can respond immediately and effectively to emergency situations are appointed as overall responsible operators, in accordance with regulatory requirements; and
- assess best practices throughout the organization to help develop corporate policies and procedures for recording, approving, and storing training records, as well as procedures to ensure that staff are completing the required number of training hours on a consistent basis.

OCWA RESPONSE

OCWA acknowledges the Auditor General's recommendations in this section. OCWA adheres strictly to all regulatory requirements established by the Ontario government regarding training, certification, and designation as the Overall Responsible Operator (ORO). Failure of an operator to meet these requirements would result in our removing the individual from operational duties on a short-term basis until the situation is resolved.

OCWA is introducing changes to its existing training database to ensure that reports capture all licence renewals on a timely basis and to better assist managers in monitoring staff training and certification/licensing to ensure that all operators continue to comply with the revised training requirements.

REVENUE GENERATION

Full Cost Recovery

According to the *Capital Investment Plan Act*, under which OCWA was created, one of its objectives is to provide services to the water and wastewater sector on a cost-recovery basis. According to its *2007 Annual Report*, when financing income is added to its loss on operations, OCWA has achieved full cost recovery. However, an analysis of OCWA's financial results shows that, although OCWA has made $10.6 million over the last 10 years, it has experienced a loss on the operations side of its business for eight of the last 10 years. In effect, OCWA has subsidized its clients for more than $50 million in the last 10 years. As Figure 9 demonstrates, any overall net income is due primarily to interest income earned from financing activities.

OCWA's financing activities, as of December 31, 2007, consisted of 47 long-term loans to 29 different clients, for a total principal amount of approximately $150 million. Many of these loans were inherited from the Ministry at the inception of OCWA in 1995. However, since 2003, when the Ontario Municipal Economic Infrastructure Financing Authority began providing low-interest loans

Figure 9: Ten-year Income Summary ($ thousand)

Source of data: OCWA

Calendar Year	Income (Loss) from Operations	Income from Financing Activity	One-time Revenue (Expenses)	Net Income (Loss)
1998	3,060	14,073	(2,016)	15,117
1999	2,767	11,416	(3,743)	10,440
2000	(11,377)	11,201	(550)	(726)
2001	(10,035)	8,951	(740)	(1,824)
2002	(9,972)	6,616	(20)	(3,376)
2003	(9,463)	7,404	(7)	(2,066)
2004	(5,574)	6,532	900	1,858
2005	(6,867)	7,046	(18,627)*	(18,448)
2006	(3,809)	6,993	(50)	3,134
2007	(1,253)	7,865	(55)	6,557
Total	[illegible]	**88,097**	[illegible]	**10,666**

* provision for losses on its loan portfolio

to support municipal infrastructure, OCWA has not provided any new loan financing. We reviewed the interest payments on these loans and found that, with one exception, monthly payments were being made as scheduled. For this one exception, OCWA has made the provision for loan losses, as noted on Figure 9.

Although OCWA has experienced a loss from its operations in the last eight years, the overall trend is a steady decrease in the amount of the loss. For instance, over the last five years, OCWA's expenses have increased only 2.8% annually on average, and OCWA has gradually reduced its operating deficit from $9.5 million to $1.3 million. If this trend continues, OCWA may achieve full cost recovery from its operations in 2008. In order to do so, OCWA will have to increase revenues and/or decrease costs. Facility operations and associated capital billings account for 98% of OCWA operating revenues, as can be seen from Figure 10.

It has been difficult for OCWA to increase operating revenue through new municipal service contracts. According to OCWA's 2008–2010 business plan, most Ontario municipalities that run their own water systems are not interested in exploring other options. Existing clients are looking for a way to lower their costs and are going out for competitive tenders or assuming direct control of their operations.

Over the last five years, OCWA has lost 56 contracts with annual revenue of $10.2 million. Most of these contracts were lost either to private sector competitors or to municipalities that assumed responsibility for their own facilities. At the same time, OCWA gained 88 new contracts that provide annual revenue of $12.3 million, for a net gain of $2.1 million in revenue each year. Most new business in 2007 ($3.4 million) related to oversight services to First Nations communities to supervise, assist, and train operators in the operation and maintenance of their water treatment systems. Of the contracts renewed in 2007, 66% were renegotiated with a lower contract margin, which means that the percentage of revenue available to cover overhead costs was less than before.

Direct operating costs for utility operations have increased by 12% over the last five years. As Figure 11 demonstrates, over this time period, OCWA has limited its expenses to an average increase of 2.8% annually.

Figure 10: Sources of Operating Revenues, 2006 and 2007

Source of data: OCWA

	2006		2007	
	($ 000)	%	($ 000)	%
facility operations—basic contracts	84,345	74.8	88,480	72.3
facility operations—capital billings	25,829	22.9	31,493	25.7
project management/engineering services	2,177	1.9	1,698	1.5
training	457	0.4	630	0.5
Total	**112,808**	**100.0**	**122,301**	**100.0**

Figure 11: Increase in Operating Expenses, 2003–2007

Source of data: OCWA

	2003 ($ 000)	2004 ($ 000)	2005 ($ 000)	2006 ($ 000)	2007 ($ 000)	Overall Increase (Decrease) (%)	Avg. Annual Increase (Decrease) (%)
salaries and benefits	44,506	47,186	48,361	49,426	50,948	14.5	3.4
other operating expenses	61,003	60,806	62,143	65,518	70,956	16.3	3.8
amortization of fixed assets	2,095	1,783	1,739	1,673	1,650	(21.2)	(5.8)
electronic operating systems	1,700	845	656	0	0	(100.0)	–
fixed asset write-off	1,198	0	0	0	0	(100.0)	–
Total	**110,502**	**110,620**	**112,899**	**116,617**	**123,554**	**11.8**	**2.8**

Although OCWA does not negotiate the costs of salaries or wages paid to employees because its employees are Ontario public servants, it does control the number of staff it employs. However, according to its latest business plan, OCWA is experiencing difficulty attracting appropriately licensed operators. Therefore, costs related to operating staff are not an area where it anticipates achieving savings. So to help control expenses and reduce exposure to market volatility, OCWA has increasingly negotiated multi-year agreements for supplies such as chemicals, laboratory services, and telecommunications.

In 2006, OCWA commissioned a consulting firm to provide a business case for achieving cost savings. The report, referred to as the revitalization initiative, made a number of recommendations for streamlining various functions to help achieve annual savings of $4.2 million with a one-time cost of $2.8 million.

The consultant's recommendations were presented to the Board in September 2006 and approved for implementation. At the time of our audit, we were informed that the revitalization project had been delayed pending the implementation of a new financial accounting system. According to senior management, OCWA has made some changes to its operations in an effort to save money. OCWA estimates that staffing changes since 2005 have achieved $1.37 million in annual savings. However, a number of key recommendations remain outstanding.

Facility Operating Agreements

OCWA operates over 500 drinking-water and wastewater treatment facilities for 180 municipal clients ranging in size from small well and lagoon systems to large urban water and wastewater treatment systems and their associated distribution and collection systems. OCWA has 205 contracts in place with these clients to provide operation, maintenance, and other services. OCWA has a few large municipal clients, but most contracts are for operating and maintenance services for small rural municipalities.

There are generally two types of contracts: fixed-price and cost-plus. Under a fixed-price contract, an annual price is established for the cost of operating the facility, including costs such as staffing, chemicals, supplies, insurance, and energy. The following year, the price is adjusted mainly for inflation, changes in flow volumes, and any costs associated with changes in the regulatory environment. Under a cost-plus contract, the cost of operating the client's facility is estimated at the start of the year; then at year-end when actual costs are known, an adjustment is made and the client is either charged the difference or given a refund. The client is also charged an annual management fee for operating and maintaining the facility.

With a fixed-price contract, OCWA takes the risk for changes in the cost of chemicals, supplies, and labour beyond the inflation adjustment. With a cost-plus contract, all cost increases are passed on to the client. Most of OCWA's contracts are at a fixed price, where OCWA bears additional risk relating to price increases above the consumer price index for inputs such as labour and the chemicals used to treat drinking water. Operations managers told us that the client typically decides what type of contract it is willing to enter into, and OCWA uses that as a basis for negotiations. The majority of newly signed contracts are fixed-price, as noted in Figure 12.

Corporate policy on the preparation of pricing proposals for contracts requires that management achieve a balance between the organization's need for cost recovery and the need to submit a low enough price to be selected to provide the service. The policy further states that the pricing decision and supporting rationale must be documented.

We reviewed a sample of fixed-price proposals prepared in 2006 and 2007, and noted that these proposals were generally not properly supported. Where documentation was available, most proposals simply quoted a cost amount by expense type. For example, salary expenses and chemical supplies were quoted as lump sums with no indication of the number of staff needed or the amount of chemicals expected to be used. In some cases additional undefined costs had been added.

Figure 12: Use of Cost-plus vs. Fixed-price Contracts, 2003–2007

Source of data: OCWA

Year Contract Negotiated	Cost-plus Contracts		Fixed-price Contracts	
	#	% of Total Contracts	#	% of Total Contracts
Up to 2003	15	21	57	79
2004	5	24	16	76
2005	15	38	24	62
2006	6	15	35	85
2007	12	37	20	63
Total	**53**	**26**	**152**	**74**

Pricing proposals are prepared with the use of a costing summary that details all expected direct costs and a contract margin to cover corporate and regional office overhead costs. However, OCWA has not conducted any analysis to provide guidance to management when applying an overhead margin to pricing proposals. We found that over one-third of all current contracts had been negotiated with margins that were less than the percentage required to recover overhead costs.

We analyzed a sample of contracts to assess the actual margins achieved and found that 40% of contracts reviewed achieved lower margins than originally projected. We found examples where facilities in our sample had negative contract margins for 2007—that is, OCWA did not manage to cover all its direct costs in operating them. For example, direct costs ($800,000) for one contract exceeded revenue by almost $60,000. This is a 10-year fixed-price contract to operate a treatment facility for both drinking water and wastewater.

Project Management Agreements

OCWA's engineering services contract its professional engineers and project managers to provide a range of services ranging from technical advice to the management of new facility construction projects. OCWA operates the drinking-water and/or wastewater facilities for most of the engineering services' clients, which are primarily municipalities and First Nations communities. At the time of our audit, OCWA was managing 110 projects, half for a fixed fee and half billed at a rate based on the number of hours staff worked on the project. Revenues from project management services were $2.2 million in 2006 and $1.7 million in 2007.

OCWA has developed a set of policies for its engineering services to follow to ensure that they generate a profit, meet their clients' needs, and encourage new business. One of the objectives outlined in the policy is to earn a sufficient margin to contribute to corporate overhead, but we found that the margin achieved in 2006 was only about half the target margin outlined in the business plan. Because a new financial system was being implemented, the margin could not be estimated for 2007. We noted a number of other concerns with corporate policy compliance:

- For fixed-fee contracts, OCWA does not track labour or other costs in sufficient detail to determine if individual projects were profitable. For cost-plus contracts, OCWA established an hourly billing rate that is intended to provide for employee benefits, overhead, and profit. OCWA could not provide us with documentation showing how the billing rate was determined or whether it covered all costs and provided an adequate profit. We were also told that OCWA sometimes takes on an unprofitable project in the hope that it will lead to more profitable work from the client in the future.
- To help assess the feasibility of project proposals, a project initiation/approval form must be completed for each new project. This form is to be reviewed and approved by a senior manager. However, the form had not been completed for many of the projects we sampled.
- Project management agreements are required to outline project costs, the role and responsibilities of OCWA, and the expectations of the client. However, OCWA could not provide evidence that formal agreements were in place for most of the projects reviewed.
- Written quarterly reports are to be prepared for clients to ensure that OCWA staff are meeting clients' needs and that projects are progressing as planned and staying within budget. Quarterly reports had not been prepared for eight of the 10 projects we sampled that were required to have had them on file.
- A quality assurance review is mandatory under OCWA policy and must be done for each completed project. In addition to closing out the file, the review can highlight concerns, indicate areas for improvement, and identify potential business opportunities. However, this review was not done for any of the completed projects in our sample.

RECOMMENDATION 6

To work toward providing services on a cost-recovery basis at the operations level, OCWA should:

- assess the progress of its 2006 revitalization project and implement the cost-saving initiatives that it deems appropriate;
- put controls in place to ensure that before each contract is approved, the pricing decision and supporting rationale are clearly documented, as required by policy;
- develop a methodology that reasonably estimates the margin required to recover all costs, including corporate overhead;
- implement an approval process whereby contracts with lower margins receive greater scrutiny; and

- implement procedures to ensure that project proposals for engineering services are properly approved, formal contracts are on file, quarterly client reports are prepared, and a quality assurance review is done at the completion of each project.

OCWA RESPONSE

To ensure that OCWA achieves and maintains full cost recovery, it has introduced a number of initiatives:

- OCWA's revitalization initiative recommended a number of proposed changes to OCWA's structure and administrative processes. At the time of the audit, a number of those recommendations had been implemented and significant savings realized. Other changes were contingent upon the completion of the implementation of our new financial system. Now that the implementation is complete, we are moving forward to complete the revitalization project.
- OCWA is enhancing its existing document control process to ensure:
    - better documentation of pricing rationale and any supporting documentation prior to contract approval and execution;
    - more detailed documentation of the rationale for the required contract margin; and
    - clear documentation of the alignment between pre-approval management analysis of contracts to margins.
- As part of OCWA's overall efforts to modernize our financial reporting, in June 2007 we introduced a new financial system, which incorporates project accounting capability. Specific attention is being given to Engineering Services to support enhanced project tracking and to allow for appropriate oversight. In addition, new tools such as business process management software will be used to allow for more rigour in control procedures.

PROCUREMENT OF GOODS AND SERVICES

A memorandum of understanding with the Ministry requires OCWA to comply with all government procurement directives for the purchase of good and services. These directives outline the principles of acquiring goods and services in the most economical manner. Purchasing at OCWA is decentralized and is done at regional and hub offices as well as head office. For the 2007 calendar year, OCWA non-salary expenses totalled $72.6 million.

Purchases for goods and services under $1,000 can be made with a corporate purchase card, which is issued to a number of OCWA employees. Also, OCWA's employees are reimbursed for travel expenses incurred for business purposes. OCWA has developed detailed policies to monitor and control these expenditures. In 2007, employees spent $646,000 using corporate purchase cards and approximately $1 million for travel costs.

We reviewed corporate-card and employee-travel expenditures, and found that adequate procedures were in place to ensure that these expenses were for legitimate business purposes, and that managers reviewed and approved related statements on a timely basis. However, statements often did not include original itemized receipts, which help to prevent the same transaction from being paid twice and help management assess the appropriateness of the amounts claimed.

Procurement policies for other goods and services require proper approvals, formal contracts, adherence to agreed pricing terms, and adequate documentation for purchases, among other requirements. OCWA has also established a competitive process, as outlined in Figure 13. With the exception of sole-sourced purchases over $10,000, the rationale for which must be documented, the purchasing requirements become more rigorous as the estimated dollar value increases.

We reviewed a sample of purchases and found that all requisitions and purchase orders had been properly approved, but purchasing files often did

Figure 13: OCWA Competitive Purchasing Process

Source of data: OCWA

Value of Purchase ($)	Competitive Process Required
< 1,000	no mandatory competitive process
1,000–10,000	3 verbal quotations
10,000–100,000	3 written quotations
100,000–250,000	request for quotation—OCWA invites certain vendors to bid (invitational tender)
> 250,000	request for tender—an advertised open tender where all interested vendors can bid

not contain the relevant documents to justify decisions or show adherence to competitive and other purchasing policies. For example:

- OCWA did not ensure that formal contracts, which spell out the terms and conditions of the purchase, were in place for all major acquisitions. For example, a three-year contract that came into effect on January 1, 2007, remained unsigned by the vendor at the time of our audit. As of January 31, 2008, without a formal contract in place, OCWA had paid this vendor $545,000 for the provision of liquefied chlorine.
- Procedures were not in place to ensure that three written quotes were received for the purchases in our sample where they were required. In fact, most of these purchases were sole-sourced with no documented justification on file.
- We found cases where purchases greater than $250,000 were acquired through a request for quotation (that is, invitational tender) rather than an open advertised competition. For example, OCWA entered into a $3.7 million contract in 2001 with a vendor for sludge haulage and removal. The vendor was originally obtained through a request for quotation (invitational tender), not a public request for tender, as required. When the contract expired in 2006, it was extended without competition.
- A process was not in place to ensure that OCWA paid the agreed-upon price. We noted several examples where prices set in contract agreements or purchase orders did not agree with the actual prices charged. In one case, a chemical supplier charged almost 21¢ per litre for chemicals when the contract specified 18¢ per litre. This small discrepancy accumulated over 40 invoices for a total overpayment of $29,000 in 2007. We were informed that this overpayment, and the others we found, would be recovered.

RECOMMENDATION 7

To comply with its procurement policies, which provide for the acquisition of goods and services in an open and competitive manner, OCWA should implement procedures to ensure that:

- **corporate-card and travel-expense statements submitted for review are supported by original and itemized receipts;**
- **goods and services are acquired in accordance with OCWA's competitive purchasing policy;**
- **signed contracts and other relevant documentation is on file for all major purchases; and**
- **payments to vendors are made in accordance with agreed-upon terms and prices.**

OCWA RESPONSE

OCWA thanks the Auditor General for his review of procurement policies and the comments offered. OCWA will reinforce with staff the need to include original and itemized receipts for all business expenses. We recognize the importance of competitive acquisition as a means of ensuring that goods and services are acquired economically. In instances where an acquisition must be single-sourced, we will ensure that documentation supporting that decision is retained in the procurement file.

Wherever possible, OCWA endeavours to ensure that signed contracts are in place for all major purchases prior to making payments. However, in the situation identified, we proceeded with the acquisition of chemicals while final contract terms, which protect the interests of the agency and its clients, were still being finalized. This was necessary in order to adhere to requirements under legislation and regulation and to ensure the health and safety of the communities in which we operate.

We have recovered the overpayment referred to and have implemented additional control procedures to ensure that such incidents to not recur.

GOVERNANCE, ACCOUNTABILITY, AND EFFECTIVENESS

Governance and Accountability

OCWA is governed by a Board of Directors, the members of which are appointed by the Lieutenant-Governor-in-Council on the recommendation of the Premier and the Minister of the Environment. The Board is responsible for overseeing OCWA's affairs and setting its strategic direction. The Board is accountable to the provincial Legislature through the Minister of the Environment.

In May 2002, the *Part Two Report of the Walkerton Commission of Inquiry* recommended changes in the Board's composition. The inquiry resulted from the May 2000 incident in the municipally run system in Walkerton, Ontario, where seven people died and 2,500 became ill when the water supply was contaminated with a deadly strain of *E. coli* bacteria. Justice O'Connor, the commissioner of the inquiry, looked into the risks posed throughout the drinking water industry; with respect to OCWA, he recommended an arm's-length agency with an independent, qualified board responsible for choosing the chief executive. OCWA's Board of Directors at that time consisted of deputy ministers from various government ministries.

In 2007, the government began appointing persons from outside the Ontario Public Service to OCWA's Board of Directors. As of June 2008, five of the eight Board members had been appointed from outside the public service, and it was evident that an effort has been made to add Board members with industry experience. Two civil servants and OCWA's Chief Executive Officer (CEO) made up the remaining three positions. The Board is still not able to appoint its CEO, as this would require a legislative change.

A key role of a board of directors is to set and monitor the strategic direction of an organization and to evaluate the CEO's performance in achieving the organization's objectives and targets. In this respect, it may not be appropriate for the CEO to be a member of the Board of Directors. Rather, the CEO should be available to answer questions and provide information requested by the board. We reviewed the board membership of other Ontario government operational enterprises to determine if their CEOs are board members and noted that they typically are not.

Management reporting to OCWA's Board of Directors typically consists of a number of reports and presentations, such as quarterly status reports on all key initiatives and performance measures published in the business plan, a review of quarterly financial results, an annual review of litigations and claims, and an annual compliance report. We reviewed OCWA's annual compliance reports for the last three years and noted that they were often incomplete and inconsistent. For example:

- The reports did not include any information on the results of facility assessment reviews or compliance audits, which are OCWA's main internal activities for monitoring compliance.

- Data on the number of ministry inspections and resulting issues raised included the results of inspection reports received at the time the annual report was produced. However, the comparative numbers for previous years did not include the inspection results for the entire year, even though these figures were available. The report included, as prior year comparatives, the incomplete figures from the previous year's report.
- In 2005, OCWA provided a breakdown of issues identified during ministry inspections and reported the number of provincial officer's orders. However, these useful statistics were not provided in the 2006 and 2007 reports. In addition, in 2005 and 2006, OCWA reported year-to-year statistics on the frequency of employee injuries. Such comparisons were not reported in the 2007 report.

OCWA lacks a set of corporate policies that outline internal reporting requirements from one level of the organization to the next, which are needed to produce accurate and reliable summary reports for the Board. Such information would assist the Board in its oversight role.

RECOMMENDATION 8

To assist the Board of Directors in carrying out its responsibility to oversee the affairs of the organization and set its corporate direction, OCWA should enhance the reliability and usefulness of its summary reporting to its Board.

OCWA RESPONSE

OCWA's Board of Directors and the Board's Audit and Risk Management Committee have established a comprehensive work plan detailing reporting requirements for the year. Over the last 12 to 18 months, the Board has transitioned from a board comprising public service employees to a board of individuals of whom the majority are from the private or municipal sectors. The current Board has been working with senior management to define more clearly the information required to carry out the Board's oversight responsibilities with respect to OCWA.

To facilitate further the flow of information to senior management and the Board, we have expanded the role of our internal operations committee to ensure that timely and relevant information required by the Board concerning all areas of OCWA's operations is provided.

Measuring and Reporting on Effectiveness

The objectives of OCWA, according to legislation, are to assist municipalities and others in providing drinking-water treatment and wastewater facilities on a cost-recovery basis by financing, planning, developing, building, and operating such facilities and services; and to provide these services so as to protect human health and the environment. Also, as a government operational enterprise, OCWA is expected to sell goods or services to the public commercially in competition with the private sector.

OCWA has developed a number of good-performance measures during its business planning process and has reported on these measures in its annual report, which is available to the public. Given its mandate, many of OCWA's performance measures focus on the business side of its operations, including providing client service and securing new clients. Other measures focus on compliance with legislation and employee relations. In its 2007 annual report, OCWA reported that it had achieved 18 of 28 performance measures and that the rest were either on track or being reconsidered as to their appropriateness. OCWA could enhance its annual report by including performance information that directly assesses its objective to protect human health and the environment, such as reporting on adverse water-quality incidents and releases of unprocessed wastewater into the environment.

Some of OCWA's performance measures are outcome-based and others are activity-based. Examples of outcome-based performance measures include achieving $2 million in new business, having at least 80% of its clients renew their contracts, and reducing the number of non-compliant events compared to the previous year. Examples of activity-based performance measures include completing facility assessments for all facilities, having senior management attend a specified number of hub staff meetings, and updating processes and procedures. Activity-based measures can help achieve organizational objectives, but they do not measure the level of organizational success.

RECOMMENDATION 9

In order to enhance the performance measures currently contained in its annual report, OCWA should:

- enhance performance measures for its mandate to protect human health and the environment; and
- consider enhancing its performance measures by focusing more on outcomes than on activities.

OCWA RESPONSE

OCWA will review its established performance measures for opportunities to reflect better our commitment to protecting human health and the environment for inclusion in our 2009 business plan.

OCWA has also engaged a recognized expert in performance metrics to assist it in developing measures that place a greater focus on outcomes rather than activities. These measures will be included in OCWA's 2009 business plan.

Chapter 3

Section

3.13 School Renewal and Maintenance

Background

Ontario has 72 district school boards with about 5,000 schools and 1.9 million students. About half of Ontario's schools were built at least 45 years ago.

In its 2002 budget, the government announced that it was taking action to upgrade and renew school facilities, starting with the most pressing needs. In 2002, it hired consultants to inspect the physical condition of each school in Ontario, assess each school's capital renewal needs, and input the results into a database. The inspections took place in 2002 and 2003. The consultants concluded that addressing the capital renewal needs of Ontario schools for the five-year period from 2003/04 to 2007/08 would cost $8.6 billion, of which $2.6 billion would be required to address urgent needs. The replacement value of Ontario's schools in 2003 was estimated to be $34 billion. In May 2004, the Premier reiterated the need for action, stating that "too many students have been left in crumbling buildings that do not meet the proper standards of safety and comfort." Also in May 2004, the Minister of Education announced that the government "will help fund $2.1 billion worth of essential repairs and renovations to Ontario's publicly funded schools" through its "Good Places to Learn" initiative.

In 2007/08, the Ministry provided school boards with more than $1.7 billion in grants for operating school facilities; the grants are used primarily for ongoing maintenance, custodial services, and utilities. The Ministry also provided $382 million in capital renewal grants for expenses such as repairs and renovations.

Audit Objective and Scope

Our audit objective was to assess whether selected school boards had adequate policies, procedures, and systems to manage and maintain their school facilities efficiently and cost-effectively.

We examined facility management at three school boards. They were the District School Board of Niagara, the Durham Catholic District School Board, and the Kawartha Pine Ridge District School Board. Figures 1 and 2 show how much funding for school renewal and facilities operations the three boards received during the past five years, as well as provincial totals in these areas.

Our audit covered custodial services, maintenance, capital renewal projects, and the purchasing practices related to them. Our audit did not include the construction of new schools or additions to existing schools. We interviewed ministry staff and

Figure 1: School Renewal Funding, 2003/04–2007/08 ($ million)

Source of data: Ministry of Education

	Annual Funding					% Increase
School Board	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**over 5 Years**
District School Board of Niagara	7.1	7.5	7.3	8.3	9.5	33.8
Kawartha Pine Ridge	5.6	5.9	5.8	6.5	7.1	25.0
Durham Catholic	2.5	2.9	2.6	2.7	2.8	12.0
all school boards	293.3	324.1	318.5	342.4	381.7	30.1

Figure 2: School Facilities Operations Funding, 2003/04–2007/08 ($ million)

Source of data: Ministry of Education

	Annual Funding					% Increase
School Board	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**over 5 Years**
District School Board of Niagara	31.6	33.1	34.6	34.5	35.5	12.3
Kawartha Pine Ridge	26.0	27.1	28.2	28.0	28.6	10.0
Durham Catholic	16.5	17.7	18.6	18.7	19.2	16.4
all school boards	1,476.3	1,562.4	1,636.6	1,660.8	1,718.7	16.4

school board staff in facilities departments and other departments at all three boards. We also met with facilities department staff from other school boards to obtain their perspectives on facility management.

Our audit followed the professional standards of the Canadian Institute for Chartered Accountants for assessing value for money and compliance. We designed tests and procedures to address our audit objective. We based them on audit criteria that covered the key systems, policies, and procedures that should be in place and operating effectively. We cleared these audit criteria with senior management at the three boards we audited.

Summary

The initiative in 2002 and 2003 to inspect each school in Ontario and enter the results into a database provided the Ministry and school boards with valuable information on the state of Ontario's schools and where renewal funds should be invested. Such a database can only continue to be useful, however, if it is kept up to date.

Our audit of three school boards included a review of capital renewal expenditures, including the money spent under the Good Places to Learn initiative. We found that funds were not always spent in accordance with Good Places to Learn requirements nor on the highest-priority needs. We also recommended that the Ministry develop an action plan to address schools that are considered to be uneconomical to maintain.

All three schools boards we audited generally had good policies for the competitive acquisition of facility-related goods and services, and all three boards were generally following their prescribed policies. However, one board did not follow its own policies in purchasing approximately $3.5 million in plumbing services from four suppliers. In particular, we noted:

- Contrary to board policies, these services were not acquired competitively—many invoices were deliberately split to keep individual payments below $5,000 and thus avoid having to get written quotations from several suppliers; and

- Invoices were not detailed enough for board staff to verify the amounts charged—when we obtained more details from one supplier, we found thousands of dollars' worth of errors and overpayments that had not been detected. Further review of just a sample of invoices found that the board had been overcharged a total of $81,500.

With respect to maintenance and custodial services at the three boards we visited, we found the following:

- There is little formal monitoring; expected service levels are rarely established; and only limited feedback is being obtained from teachers, students, and parents on how well their individual school is being maintained and cleaned.
- School boards should more formally track the comparative costs for these services between schools within each board or between boards in the same geographical region. We believe such comparisons would provide useful information in highlighting possible best practices as well as inefficient or costly practices that warrant follow-up.

Electricity, natural gas, and water costs are a major expense. All three boards had introduced energy conservation measures and were making energy conservation a high priority for their schools. However, more can be done in this area. For instance:

- Boards should be comparing energy costs between schools to identify situations where energy costs differ significantly between buildings of a similar age and structure.
- Neighbouring boards should be comparing their energy costs per square metre (this useful information is available from the Ontario Public School Boards' Association) and following up on those instances where costs differ significantly between the boards. We noted instances where the energy costs per square metre of neighbouring boards differed by over 40%.

We sent this report to the school boards we audited and to the Ministry and invited them to provide responses to our recommendations. Responses from the school boards and, where applicable, from the Ministry to specific recommendations are summarized following each recommendation. Overall, the school boards and the Ministry generally agreed with our recommendations and, in some cases, are already taking action to address them.

Detailed Audit Observations

SCHOOL RENEWAL

Information on Renewal Needs

School buildings deteriorate over time. Specifically, their structure, interior finishings, plumbing, and electrical and heating systems age and need funding to be kept up. Also, older buildings sometimes need extensive renovations to meet new health, safety, and other regulations. Often, the longer repairs to one part of a building are deferred, the greater the risk of damage to other parts of the building. For instance, a leaky roof can damage ceilings, floors, furniture, and equipment.

As mentioned, in 2002 and 2003, consultants hired by the Ministry inspected each operating school building in Ontario. On the basis of the results, the Ministry's consultants noted the following:

- The "major problems include leaky roofs, cracked windows, insufficient heating, cracked pipes and plumbing, and failing lighting systems…"
- Eighty-five percent of Ontario's students were being taught in buildings that needed at least one major repair.

- The "state of Ontario's school buildings is getting in the way of the instruction being taught within them."

The consultants recorded the results of the inspections in a database and used capital planning software to estimate by when each capital renewal project would need to be undertaken and how much it would cost. Their work indicated that meeting the renewal needs for Ontario schools from the 2003/04 to the 2007/08 fiscal year would cost a total of $8.6 billion. About $3 billion of this amount would be needed to meet 2003/04 and 2004/05 high and urgent needs, and $2 billion would be needed to meet all 2003/04 and 2004/05 medium needs.

We felt that this was an excellent initiative for the Ministry to have undertaken because it provided the Ministry and school boards with objective information on which to base future capital renewal decisions and therefore was helping to ensure that taxpayers would get the "best bang for their buck."

The Ministry provided boards with training materials for updating the database as well as several opportunities to ensure the accuracy of the information in the renewal inspection database. However, some issues arose when, in March 2005, each school board reviewed its school renewal needs in the database for completeness and accuracy. One board we audited found that the data on its schools did not include high and urgent needs totalling $12 million. Another board advised us that the Ministry would not allow it to add omitted components of a building to the database. For example, it could not add a sprinkler system left out of the original list of a school's renewal needs. All the boards we visited were concerned that the analysis assumed that certain problems could be fixed by just replacing a component with a similar component. They expressed concern that the effect of changes in building codes or programs on the timing and costs of projects was not taken into account.

Despite the fact that the underlying data may not be as comprehensive as all boards would like, the capital needs database resulting from the province-wide assessment is an excellent planning tool. However, its continued usefulness will be largely dependent on the ability of the Ministry and the boards to refine the data and keep the database up to date. In a March 2004 report to the Ministry, consultants recommended that boards should have processes to ensure that the database is kept current. To that end, starting in late 2006, the Ministry required that school boards input the capital renewal projects that had been completed since the initial inspections. The Ministry told us that the majority of the 72 boards had updated information as of August 2007. However, one of the three boards we audited had not yet done so.

The boards we audited believed that formal reinspections should be conducted every five years to determine whether priorities or estimated costs have changed. In 2006, one school board hired an assessor to reinspect most of its schools. The assessor noted significant changes not reflected in the database. For example, renewal needs initially identified as costing about $2 million were now estimated to cost $4 million.

RECOMMENDATION 1

To help ensure that the school renewal capital planning database contains up-to-date information and accurately reflects major repair and renewal needs, school boards and the Ministry of Education should:

- ensure that the database is periodically updated with completed renewal projects; and
- periodically reassess the condition of school buildings and adjust the database accordingly.

SUMMARY OF SCHOOL BOARDS' RESPONSES

The boards agreed with the recommendation. The boards indicated that they are updating the database on an ongoing basis.

MINISTRY RESPONSE

The Ministry also agreed with this recommendation. The Ministry regularly advises boards of their responsibility to update their capital renewal activities as they relate to planned and completed projects in the database, to ensure that the database reflects the current condition of school buildings.

Use of Renewal Funding

Good Places to Learn Funding

In May 2004, the government announced a three-stage Good Places to Learn (GPL) initiative. The initiative was to provide the financing to help "fund $2.1 billion worth of essential major repairs and renovations to Ontario's publicly funded schools." Under Stage 1 of GPL, the Ministry was to "provide boards with an estimated $75 million annually in financing" to support the borrowing of funds for about $1 billion in major repairs. Stage 1 began in March 2005 to address 40% of the $2.6 billion in identified 2003 and 2004 high and urgent renewal needs. How much each board got was based on the board's share of the high and urgent needs in the province.

Each board's trustees were required to pass a resolution on how they would spend Stage 1 GPL funds. Only projects that met high and urgent needs in schools that the board planned to keep open for 10 years or more were eligible.

We looked at the use of Stage 1 funds at the three boards in our audit. Specifically:

- Were Stage 1 funds used for high and urgent needs?
- Were the amounts spent close to the estimates in the database?
- Did projects start after March 2005 as required?

At one board, we found that $2.5 million of its $2.8 million in Stage 1 funds had been used on ineligible projects. For example, this board claimed to have spent $810,000 of its GPL funding on a project that had actually been finished and paid for in 2003, before GPL was announced. When we pointed this out to the board, the board immediately took steps to ensure that the originally selected projects were correctly accounted for through the board's capital renewal program, not GPL Stage 1 funding.

At another board, we reviewed projects at four schools. Despite frequent ministry directions that GPL funds may only be used for projects with needs of a high and urgent nature, we found that Stage 1 spending exceeded estimated costs in the database for projects at three of the schools by approximately 25%. For example, $2.9 million in GPL Stage 1 funding was spent on a school with high and urgent needs of only $2.2 million. At another school, with high and urgent needs estimated to cost a total of $2.9 million, GPL Stage 1 funded $3.5 million in actual costs.

In 2006/07, GPL Stage 2 provided funding to finance the borrowing of "$500 million to address additional high and urgent renewal needs not funded in Stage 1, and recognize lacking or inadequate specialized spaces, such as science labs, gymnasia or broad-based technology." We understand that these projects were finalized after we completed our audit.

In 2007/08, under GPL Stage 3, the Ministry provided school boards with "an additional allocation to support a further $500 million to continue to address high and urgent renewal needs not funded in Stage 1 and Stage 2, and to continue to recognize lacking or inadequate specialized spaces."

Annual Capital Renewal Funding

School boards annually receive capital renewal funding from the Ministry. This funding is to pay for repairs and renovations to schools. It is based mainly on enrolment and must be spent on tangible projects, although not necessarily on projects of high need or of an urgent nature. Ongoing maintenance is to be funded from grants for school operations.

We reviewed how the three boards we audited were using their capital renewal funds. We expected they would have a formal plan to ensure that these funds would be used predominately for the high and urgent renewal needs not paid for by GPL funding. But one of the boards did not prepare a formal capital renewal strategy or get approval from trustees for how to use the funds. We also found that boards were not always using the funds for identified urgent capital renewal needs. For instance:

- In the 2005/06 and 2006/07 fiscal years, one board spent about $500,000 of its $2.5-million annual capital renewal funding on ongoing operational expenses. Examples included air-conditioning service, bulk air filters, fire-alarm service calls, and tree trimming.
- Meeting one board's assessed high and urgent needs would cost an estimated $50 million. Stage 1 GPL funded only $20 million. Yet, over the past three years, this board spent about 14% of its annual capital renewal funding of $18 million on painting and asphalt projects. None of these projects were on the list of identified high and urgent needs.

RECOMMENDATION 2

To help ensure that one-time and ongoing renewal funding is spent prudently, school boards should:

- formally rank all capital renewal projects to ensure that they are prioritizing the most urgent ones appropriately;
- require that trustees approve capital renewal plans and any significant revisions to them; and
- spend Good Places to Learn (GPL) and annual capital renewal funds only on eligible projects.

SUMMARY OF SCHOOL BOARDS' RESPONSES

The boards agreed with the recommendation. The board that had used $2.5 million of GPL funding on ineligible projects has stated that all its GPL projects now comply with ministry requirements. Similarly, the board that spent about $500,000 of its annual capital renewal funding on ongoing operational expenses stated that all its future capital renewal spending will comply with ministry guidelines. All three school boards also indicated that all their future capital renewal plans will be submitted to their boards of trustees for approval.

MINISTRY RESPONSE

The Ministry has initiated an Operational Review Project to identify leading practices in facilities management, amongst other topics, and to assess school board practices against these leading practices. These practices include the standard that school boards should develop an annual and multi-year facility maintenance and renewal plan and that this plan should be reviewed and approved by senior management and the board. All 72 school boards will be reviewed against this standard over a three-year period through this project. Boards are being encouraged to review their current practices and move toward full adoption of leading practices.

We note that boards are able to fund the "out-of-scope" components of their GPL projects through their School Renewal Grant, including projects with needs that have since become high or urgent, as well as projects that address accessibility and health-and-safety issues.

Also, in March 2008, the Ministry announced an additional $250 million for 2008/09 to continue to support GPL renewal needs.

Prohibitive-to-repair Schools

As a result of the initial inspections of 2002 and 2003, 136 schools were considered to be in very poor condition. Repairing them would be too expensive to be cost-justified—in other words, they were "prohibitive to repair" (PTR). The schools were put in this category on the basis of their Facility Condition Index (FCI), a standard measure of facility condition in the building industry. The FCI for a school is a percentage calculated by factoring in the school's replacement value—based on the number of student spaces in the school—and the school's five-year renewal needs. The higher the FCI, the less economical it is to make the necessary repairs. The Ministry defined a prohibitive-to-repair (PTR) school as having an FCI equal to or greater than 65%.

Figure 3 is a chronology of events relating to PTR schools. As it indicates, the list of PTR candidate schools had increased from 136 to 260 by late 2006. The reasons for the increase included:

- the Ministry's revision of the basis for calculating the FCI;
- changes in the condition of many schools since the 2002/03 assessment; and
- the boards' identification of renewal needs not considered in the 2002/03 assessment.

After its approval of funding to consolidate or replace 57 PTR schools in September 2007, the Ministry continued to analyze the remaining identified PTR schools for funding purposes. By March 31, 2008, it had approved financing—worth approximately $515 million—to consolidate or replace a total of 104 PTR schools. Also in March 2008, it announced that school boards' Stage 3 GPL allocations would include the Stage 1 and Stage 2 funding the boards would have received for the remaining identified but unfunded PTR schools had those schools been included in the earlier GPL allocations. (Under stages 1 and 2 of GPL, the high and urgent needs of Ministry-identified PTR schools had been excluded from GPL funding because the Ministry did not consider repairing PTR schools to be justified.) In the same announcement, the Ministry said that it would continue to analyze the remaining identified PTR schools and that the final PTR decisions would be made in the 2008/09 fiscal year.

Figure 3: Events Relating to Prohibitive-to-Repair (PTR) Schools

Prepared by the Office of the Auditor General of Ontario

2002–03	• Ministry-hired consultants assess the condition of each school in province.
2005	• Ministry announces GPL program will provide $50 million annually to finance $700-million worth of new construction. Construction is to replace "120 of the worst schools in the system that are too expensive to repair."
June 2006	• Ministry revises FCI calculation to allow boards to use gross floor area as well as the number of student spaces to determine the replacement cost of a school. • This increases the number of PTR schools from 136 to 208.
October 2006	• Ministry permits boards to identify other schools that they also believe are PTR schools.
Late 2006	• Total number of PTR schools identified by boards and the Ministry exceeds 500. • After evaluating boards' requests, Ministry invites boards to submit business cases for the 260 PTR candidates.
September 2007	• Ministry approves $350 million in PTR financing to address renewal needs for 57 schools. Some schools are to be consolidated and others will be replaced.

RECOMMENDATION 3

To help ensure that students have acceptable, suitable environments to learn in, the Ministry of Education should develop an ongoing process to identify and address urgent capital renewal needs before schools become prohibitive to repair.

MINISTRY RESPONSE

The Ministry expects boards to develop an annual maintenance and renewal plan that reflects the needs of their facilities. The Ministry has committed $2.25 billion in funding to help boards address high and urgent renewal needs since 2005 and a further $700 million to replace schools in the worst condition. The Capital Priorities Program announced for 2008/09 will provide another $500 million to support boards in, among other things, replacing schools that are prohibitive to repair. The Ministry also provides over $300 million annually for renewal funding. This funding has reduced the backlog of renewal needs for schools.

SCHOOL CLOSINGS

The decision to close a school is always hard. Most often, declining enrolment, and renewal and programming needs are the main reasons for closing schools. Declining enrolment leads to unused capacity at a school and reduced funding to operate the school (because most ministry funding is based on the number of students). In the end, it can be uneconomical to continue to operate such a school. In recognition of these challenges, in 2004 the Ministry said it would provide "approximately $199 million annually to boards to make up for the cost to maintain and repair empty spaces." The amount saved by closing a school is also affected by the school's condition. The worse a school's condition, the more expensive it is to maintain. So more savings result when the school closed is one that needed significant upkeep or renewal.

The *Education Act* stipulates that the decision to close a school is up to individual school boards. But it also allows the Minister of Education to issue guidelines on school closure. The Ministry issued such guidelines on October 31, 2006, to replace the guidelines previously in place. While it was developing the guidelines, the Ministry asked boards for a moratorium on school closings. The moratorium began in December 2003 and ended in 2006 when the guidelines were issued.

The guidelines are called *Pupil Accommodation Review Guidelines*. They require that boards develop a framework to assess the value of their schools. When deciding whether to close a school, the board must determine the school's value to students, the community, the school board, and the local economy. The board must also consult the community as part of the review process.

There is another factor that could persuade a board to keep open a school that it might otherwise close. It is the availability of "top-up" grants to help boards adjust staffing and operations for schools with declining enrolment and resulting unused capacity. In 2006/07, the Ministry provided $218 million in such grants, of which $188 million helped with school operations and $30 million helped with school renewal.

These top-up grants are calculated differently for urban schools than for rural schools. The top-up grant for an urban school is limited to 20% of what the school would be funded for at full capacity. Thus, a board must absorb the operating costs of urban schools that operate below 80% utilization. But rural schools can qualify for funding that covers the full operating cost projected for the capacity of the school regardless of actual utilization.

We looked at the effect of these grants on the boards we audited. One board, experiencing declining enrolment, closed one urban and one rural school. The different effects of top-up grants on the amounts the board saved at these two schools is shown in Figure 4.

Figure 4: Annual Savings from Closing a Rural and an Urban School ($)

Source of data: one of the school boards audited

Type of School	Total Savings from Closing the School	Amount Covered by Top-up Grants	Net Savings to the Board
rural	155,000	135,000	20,000
urban	160,000	80,000	80,000

Note: net savings at individual boards may vary

Although the total annual savings were about the same from closing either school, had the board decided to accept the top-up grant and keep both schools open, the net cost to keep the rural school open would have been far less, giving the board considerably more financial incentive to do so. But savings to the province from closing the school would not have been realized because the top-up grants would have continued. (The savings calculations do not include transportation costs, which could affect net savings at either school.)

As mentioned, declining enrolment, unused capacity, and expensive renewal needs are factors in school-closure decisions. We noted the following on potential future trends in these areas:

- *Declining enrolment*—Student enrolment peaked at nearly 2 million students in the 2002/03 school year. However, it had fallen by 68,000 students by 2007/08. It is expected to decline by another 70,000 students by 2012/13, according to the Ministry.
- *Unused capacity*—The Ministry has reduced class sizes in primary grades, thereby decreasing the capacity of schools. In the past three years, the decrease in capacity actually outstripped the decrease in enrolment. As a result, the number of unoccupied spaces in schools fell from 215,000 (2004/05) to 176,000 (2005/06) to 160,000 (2006/07). However, a planning consultant has projected that this trend will reverse itself in the next 10 years. Unoccupied classroom spaces are expected to grow by 35% to 40% in elementary schools and could increase by 30% to 35% in secondary schools.
- *Expensive renewal needs*—The same consultant noted that most of the surplus space will be in older schools with higher renewal needs and operating costs, and that closing such schools would realize significantly higher savings compared to closing newer schools. This planning consultant concluded that, overall, closing older schools would significantly reduce the province's school renewal needs.

If these projections are accurate, there may be more financial pressure to close schools in the future, and it will be important for both the Ministry and school boards to adopt a long-range, proactive process that addresses student needs and financial pressures in an objective and fact-based manner.

RECOMMENDATION 4

To help school boards make the best possible decisions on closing schools, the Ministry of Education should:

- review the impact that top-up grants have on keeping schools open to ensure the grants are meeting their intended purpose; and
- assess the impact that its guidelines are having on school closures and address any concerns identified.

MINISTRY RESPONSE

The Ministry agreed with this recommendation. In general, ministry funding policies are intended to be very responsive to the individual circumstances of each school, and are designed to support schools experiencing enrolment fluctuations and to prevent school closures that would result in pupils having to be transported long distances to other schools. Boards are encouraged to make decisions about school closures on the basis of the needs and circumstances of students, and so funding implications arising from these decisions are intended to be as neutral as possible.

The Ministry does consult with boards about their pupil accommodation processes and invites their suggestions for possible changes to the guidelines and processes.

ACQUISITION OF GOODS AND SERVICES

Contracting for Services

All three boards we audited had adequate policies for ensuring that they acquire goods and services competitively and through a fair and open process. Also, our work indicated that two of the three boards were generally adhering to their established policies for facility-related purchases.

While the third board had good policies in place, it was not always adhering to them. One policy required written quotations from at least three suppliers for any purchase with an estimated value of $5,000 to $49,999. For less costly purchases, verbal quotations from a single supplier would suffice. The consultants that inspected all of the province's schools in 2002/03 identified $1.7 million in high and urgent plumbing needs at three of this board's schools. In June 2005, board staff advised the Board of Trustees that three plumbing projects totalling $445,000 were to be undertaken at these schools. A plumbing contractor was hired for these projects without any competitive process. By the time the work was completed, the contractor had billed the board $1.1 million. In total, over the period from September 2003 to April 2007, the board paid this contractor about $2 million.

We noted that, starting in late November 2006, every one of this contractor's invoices was just below $5,000. Also, the amount charged for labour was always the same—$2,600 (40 hours at $65/hour). At one school, invoices of just below $5,000 accounted for $230,000 of the $276,000 billed for plumbing work between November 2006 and March 2007. This made us suspect that these invoices might not have been properly generated. Our suspicions were confirmed when we were advised that plant staff had told the contractor to keep invoices below $5,000. This occurred around the time we released our *2006 Annual Report*, in which our school board audit report covered the purchasing practices at four boards, including the requirement for competitive quotations for purchases over $5,000. Intentionally keeping invoices below $5,000 should not be used to justify not following purchasing policy, and it limits the board's ability to determine whether the amounts paid were reasonable.

We also reviewed billings from another plumbing company that was hired without a competition. Between January 2005 and April 2007, the board paid the company $1.5 million. Billings from this company were usually split up among several invoices, each for $5,000 or less. We also found that this vendor had overcharged the board $30,000 because it had double-counted the GST in its billings. The board recovered the overpayment after we advised it about the errors.

Reviewing Billings

Billings from the same plumbing contractor that received approximately $2 million of work consisted of a one-page invoice plus the packing slips listing materials. Prices were not included on the packing slips. The invoices did not itemize materials used, their cost, and other charges such as markups. They also did not include any documentation supporting the amounts charged. Only after November 2006 were the hourly rate for labour and the number of hours worked shown. But, as mentioned, this information was identical on every invoice.

We requested supporting documentation for material prices and labour hours billed from the contractor. Prior to providing us with the documentation, the contractor reviewed selected invoices for work done at the three high schools and found a number of errors in billings to the board, as follows:

- For the work done at two high schools, the contractor reviewed the paperwork for 10 out of a total of 54 invoices. The 10 invoices totalled approximately $250,000. The contractor found errors in seven of the invoices, amounting to overcharges for materials of $10,000. Also, only at this time did the board learn that the contractor was charging a 25% markup on materials.
- For the work done at the third high school, the contractor reviewed invoices from November 2006 to March 2007 totalling approximately $300,000. The contractor identified overbillings totalling $41,500 ($8,500 for materials and $33,000 for labour).

We understand that the board has since recovered these overpayments. However, since seven of the invoices in the first sample of 10 had errors, we believe the board should review the other 44 invoices, which totalled $550,000. The board should pay special attention to the $400,000 billed for labour, since a large amount was overbilled for labour at the third high school.

RECOMMENDATION 5

To help ensure that their purchases of goods and services are economical, school boards should:

- ensure that all purchases are made competitively and in accordance with board policies;
- conduct reasonableness reviews to ensure that supplier invoices are not artificially split into multiple invoices for smaller amounts;
- require that invoices have enough detail for board staff to assess their accuracy and reasonableness; and
- check invoices for possible errors before they are paid.

SUMMARY OF SCHOOL BOARDS' RESPONSES

Two boards indicated that they continue to follow prudent purchasing policies. The board that had not followed its own policies in purchasing plumbing services advised us that it has implemented all of our recommendations. Specifically, the board indicated that the following has occurred since the audit:

- Plumbing services provided to the board have been tendered specifying labour and material markups.
- Immediately after concerns were raised over invoicing inconsistencies, board staff directed vendors to detail their invoices itemizing labour and material costs, provide backup invoices, clearly identify percentage markups on material for maintenance work, and discontinue the splitting of invoices.
- All invoices from the plumbing contractor we referred to have been thoroughly reviewed, resulting in further credits totalling approximately $5,300.

MINISTRY RESPONSE

In December 2006, the Ministry issued a policy memorandum to school boards to highlight best practices in procurement and to require boards to review their procurement policies and publicly post these policies on board websites. In addition, the Ministry has identified leading practices for procurement through the Operational Review project and is assessing boards against these practices.

SCHOOL UPKEEP

Our audit included assessing the processes boards have for ensuring that custodial services and maintenance services are well managed. Mostly board staff deliver custodial services, while usually a combination of board staff and external service providers delivers maintenance services.

Setting Clear Expectations

All school boards receive school operations funding to cover the costs of heating, lighting, maintenance, and cleaning. The amount boards receive is based on factors such as enrolment at the board's schools, the schools' geographical location, and community use of the schools. The funding formula is meant to ensure that boards receive equitable funding to keep their schools clean, well-maintained, and adequately heated and illuminated. School boards determine how they will allocate these funds.

None of the three boards we audited had established measurable service expectations for their maintenance and custodial services. As a result, they cannot formally assess whether the funds have been spent cost-effectively and expectations have been met.

Such expectations do exist in other jurisdictions. For example, the U.S.-based Association of Higher Education Facilities Officers (Association) has defined five different levels of custodial service. From highest to lowest, the custodial levels are:

- orderly spotlessness;
- ordinary tidiness;
- casual inattention;
- moderate dinginess; and
- unkempt neglect.

The Association also publishes information on the costs and the number of employees needed to achieve each level of service depending on the size of the facility.

One of the boards we audited did indicate that it was planning to establish an expectation for its custodial services similar to what the Association defines as "ordinary tidiness." The two other boards did not have any such plans, however. The only service requirement they had established—the frequency of cleaning tasks—does not indicate the level of cleanliness that is expected day to day.

Assessing Quality of Service

Four important sources of information on the quality of custodial and maintenance services are feedback from staff, inspections, complaints, and surveys.

Staff Feedback

The facilities departments at all the boards we audited communicated with staff about their school's custodial and maintenance services. Also, the board that is considering establishing a defined service-level expectation took the initiative to hire a consultant to obtain feedback from key users. The consultant reported that the main custodial-service concerns were inconsistent quality of custodial service; no service-quality standards; and limited supervision of custodial staff, particularly at night when most of the cleaning is done. The maintenance concerns included inadequate supervision; maintenance staff giving priority to their own projects; and maintenance staff not doing the work requested on a timely basis, leading to repeated requests.

Inspections

Inspections are another way boards can determine whether all assigned tasks have been completed and whether a school is being maintained and cleaned at expected levels.

All of the three boards that we audited conducted supervisory inspections of custodial work. However, only one board was using standardized checklists to ensure that inspections were consistent and results were recorded. Our other observations on inspections of custodial work were as follows:

- Supervisors at one board conduct informal inspections of custodial work. But there are no requirements for how many inspections should be conducted per year. For the most part, inspections were documented only when there were recurring staff performance problems.

- Another board had a policy whereby supervisors must inspect every school twice a year for cleanliness. But only one of the board's four supervisors had documentation to show that approximately half of the required inspections had been completed.
- Supervisors at the third board did not regularly document inspections conducted. We were advised that supervisors informally evaluated cleanliness and made recommendations to custodians. Over the past few years, documented inspections have been limited to problematic schools.

The three boards inspected maintenance work only informally. They did not document the inspections and did not specify how frequently they should be done.

On the other hand, we noted a good practice at one board: the manager of maintenance services used work-order reports to identify schools where a significant amount of work had been completed; review the volume of work done by trade and by maintenance area; and determine where there might be productivity problems. However, while this practice produced useful information, it would be enhanced by documenting the analysis done and any actions taken on problems noted. The other two boards did not monitor work-order reports on a regular basis.

Complaints

None of the three boards maintained a formal log of complaints about custodial or maintenance services. However, senior facilities staff indicated that senior school staff would advise them if complaints were not handled quickly and effectively. Principals at one board could raise concerns to senior board staff through their Principal Advisory Committee.

Surveys

In 2004, the Ministry discontinued School Facilities Information System (SFIS) surveys. Staff at the boards told us those surveys gave them valuable information on facilities and the condition of schools. Since then, other than a consultant's review conducted at one board, the boards we audited had not surveyed any school users—such as principals, teachers, students, and parents—about their level of satisfaction with a school's physical condition and environment. We did note that a board we did not audit surveyed its parents in spring 2007 on whether its schools were clean and in good repair. This is a practice other boards should consider.

RECOMMENDATION 6

To help ensure that funding for custodial and maintenance services is spent well and that work is properly completed, school boards should:

- establish certain basic service-level objectives for custodial and maintenance services;
- periodically inspect the work of staff for quantity, quality, and completeness and document the results; and
- conduct surveys to determine the satisfaction of school users with the services provided.

SUMMARY OF SCHOOL BOARDS' RESPONSES

The boards agreed with the recommendation. One board had taken steps to implement tools that will help with audits and quality control. Another board developed a new custodial manual, log book, and inspection form, along with appropriate supporting training, which were issued in the 2007/08 school year. Another board indicated that there is a daily cleaning schedule specific to each school and that plant operations supervisors periodically inspect the work of staff to ensure that service expectations are met. Although not all inspections are documented, corrective action is taken for sites that do not meet the required service level. One board indicated that, although it has not conducted surveys, there are many other avenues for feedback within the board.

MINISTRY RESPONSE

The Operational Review process has identified as a leading practice that school boards should have cleaning and maintenance standards for all schools, and report annually on the results. The process includes an assessment to ensure that boards have appropriate internal controls to:

- ensure that custodial and maintenance services are effective and efficient in maintaining an optimal student learning environment; and
- effectively manage custodial and maintenance operations and expenditures.

Cost Management

Custodial and Maintenance Service Costs

Boards should ensure that custodial and maintenance services are cost-efficient. This requires obtaining data on how much is spent on upkeep and analyzing that data. For example, data on custodial costs could be broken down to the cost per square metre at each of a board's schools. The board could then compare schools in this respect both against each other and against relevant benchmarks. Next, it could investigate anomalies, and find possible best practices to implement boardwide.

The Ontario Public School Boards' Association conducted and reported on a useful assessment: how much boards throughout Ontario spent on maintenance and custodial services. Figure 5 shows the results for the three boards we audited and the provincial average for the five-year period ending August 31, 2005. Clearly, there are significant differences between the amounts per square metre being spent at different boards. However, boards have done little follow-up analysis of this useful information to determine whether certain boards have best practices that could be followed by other boards.

Figure 5: School Board Expenditures on Maintenance and Custodial Services, 2000/01–2004/05

Source of data: Ontario Public School Boards Association

	Annual Expenditure ($/m²)			
School Year	**Board A**	**Board B**	**Board C**	**Prov. Avg.**
2004/05	41.05	51.32	60.75	51.81
2003/04	38.53	49.57	62.86	51.45
2002/03	38.15	47.69	67.96	49.70
2001/02	34.84	44.22	67.93	48.25
2000/01	35.34	43.18	72.09	47.19

Although all three boards tracked some custodial and maintenance service costs on a per-building basis, none of the three boards we audited adequately tracked total maintenance and custodial costs per building. As a result, they did not formally compare the overall costs of similar buildings within the board and at other boards. They also did not assess the costs against external benchmarks.

With respect to spending on maintenance, none of the boards we audited had documented guidelines for prioritizing maintenance activities. Maintenance budgets were drawn up mostly on the basis of what funds were available. They did not take into account the board's actual maintenance needs.

All three boards had access to reports on the cost of custodial supplies per school. But again, they could not demonstrate how this information was used. On the other hand, all three boards implemented several initiatives to reduce costs and improve effectiveness. For example, they purchased automated floor scrubbers to increase efficiency and effectiveness and were using pre-measured dispensers to ensure that cleaning products are used efficiently.

Preventive Maintenance

Preventive maintenance can help minimize future costs and prolong the life of buildings and equipment. All three boards had preventive maintenance programs in place, but their efforts to track the amounts spent and the work done varied. They also did not document how they determined the frequency with which they conducted preventive maintenance (for example, did they inspect major equipment such as heating and cooling systems as often as the manufacturer recommended?).

Staff informed us that lack of funding prevented them from undertaking certain preventive maintenance tasks. These included preventive maintenance of mechanical systems (including heating, cooling, and plumbing) and electrical systems. Doing this work could reduce long-term maintenance costs and service disruptions. It could also extend equipment life.

RECOMMENDATION 7

To help minimize costs and prevent service disruptions, school boards should:

- compare maintenance and custodial costs between schools within boards to identify variances that may be indicative of both good and poor practices and take corrective action; and
- determine whether additional expenditures on preventive maintenance could reduce long-term costs.

SUMMARY OF SCHOOL BOARDS' RESPONSES

One board indicated that, although it did not compare maintenance and custodial costs between schools, its preventive maintenance system does deal with major equipment, thereby reducing long-term costs.

Another board advised us that it has established cost-centre accounting codes for all locations and formally implemented the tracking of maintenance and custodial costs. The board has also undertaken a review of all facility-related work requests to assist in identifying and prioritizing preventive maintenance.

The third board stated it would continually look at its preventive maintenance program and is now automating some of its functions to increase equipment reliability.

MINISTRY RESPONSE

The Ministry has agreed to undertake a study of school operations costs in collaboration with school boards and unions representing school board maintenance staff, and the design of this study is under way.

The Ministry's Operational Review process has identified leading practices for school board maintenance, and individual school board review reports will highlight best practices in preventive maintenance and custodial expenditures.

Energy Management

School facilities use a significant amount of energy. According to the Ontario Public School Boards' Association, total utility costs for Ontario's 72 school boards—which include electricity, natural gas, and water—have increased from approximately $245 million in the 1998/99 fiscal year to $401 million in the 2004/05 fiscal year. This is an increase of 64% over that six-year period. In 2004/05, energy costs at school boards ranged from $9.95 to $29.41 per square metre. Figure 6 shows the amounts spent on energy at the three boards we audited and the provincial average over the five-year period ending August 31, 2005.

Figure 6: School Board Expenditures on Energy, 2000/01-2004/05

Source of data: Ontario Public School Boards Association

	Annual Expenditure ($/m^2)			
School Year	**Board A**	**Board B**	**Board C**	**Prov. Avg.**
2004/05	12.11	14.56	17.04	15.87
2003/04	12.09	12.48	16.76	15.56
2002/03	11.74	14.79	19.67	15.43
2001/02	10.23	12.56	20.76	15.01
2000/01	11.89	13.76	17.25	14.76

Practising Energy Conservation

We found that, while they could be doing more in certain areas, all of the boards we audited were taking action to lower their energy costs. For example:

- One board we audited had developed policies for temperature settings, operating times for heating and cooling systems, and the operation of computers and audio and video equipment. It also had conservation policies for lighting, fridges, and freezers. At the time of our audit, the board was not yet monitoring compliance with these policies, but the development of policies was a good first step.

  This board had also established an Energy Conservation Committee that set forth several initiatives to reduce energy consumption and to educate people on energy conservation. In May 2007, it announced that about 50 schools had achieved total savings of approximately $80,000 annually.
- Another board sent a memorandum on energy saving to staff in 2007. It said that, in the summer months when no students are present, air conditioning would be turned off and asked that staff turn off or unplug all non-essential equipment. This board also planned to develop an energy policy that includes standard temperature settings and ventilation schedules. This board had also recently established an Energy Management Committee.
- The third board had prepared a draft energy plan that included temperature settings, running times for air-handling units, and exterior lighting periods.

Measuring Energy Consumption

None of the three boards we audited had established energy consumption targets to, for example, reduce electricity, gas, and water consumption by a target amount. On the other hand, staff at one board have been entering energy-consumption and -cost data into a database. They compare the monthly consumption of electricity and gas with the monthly average over the previous four years. They told us that they follow up on variances greater than 20%. Although this is a good initiative, we found no documentation of any actions taken on such variances, and they were three months behind in entering electricity data and 24 months behind in entering gas data. Another board had a system for measuring and monitoring energy consumption by school, but it did not formally compare energy consumption from school to school. The third board had recently started to track consumption and costs for management purposes.

Analyzing Consumption Data

Boards should be assessing their energy efficiency to identify savings opportunities. For instance, they could group schools that are similar in terms of age, size, mechanical systems, and utility usage; compare their energy consumption; investigate anomalies; and look for energy conservation best practices.

Another useful comparison would be between coterminous boards (boards sharing the same or part of the same area of jurisdiction) and between boards that are geographically similar. One of the boards we audited did such a comparison. It found that it spent $17.04 per square metre on energy in the 2004/05 fiscal year while its coterminous board spent only $11.05. It was planning to implement certain practices of the more efficient board, such as standard temperature settings, ventilation schedules, and shutting down of computers and turning off of lights when not needed. As a result, this board's 2007/08 energy budget of $4,450,000 was $480,000 less than the previous year's budget. We understood as of February 2008 that the board was expecting to save approximately $430,000.

We compared other coterminous boards and found significantly different rates of energy consumption worth investigating. One board spent $17.33 per square metre and its coterminous board spent $12.11. At another pair of coterminous boards the amounts were $20.25 and $14.32.

Schools' energy consumption can also be benchmarked against other types of buildings, such as one- to three-storey office buildings that function like schools.

RECOMMENDATION 8

To help ensure that energy costs are minimized, school boards should:

- develop a formal energy-management program with specific energy conservation targets; and
- compare energy consumption among similar schools within and between boards as well as total energy consumption among boards in the neighbouring area and investigate significant variances for evidence of best practices or areas where energy savings may be realized.

SUMMARY OF SCHOOL BOARDS' RESPONSES

The boards agreed with the recommendation. In July 2008, the Ministry launched an energy conservation initiative for all school boards. The program will collect and share data on energy consumption in all Ontario schools; promote best practices in operating and maintaining schools to reduce overall energy consumption; and work with individual boards to create a conservation strategy for their schools in compliance with the *Energy Conservation Leadership Act, 2006*.

One board advised us that it has specifically engaged in:

- developing new policies and administrative regulations on environment and energy;
- targeting strategies for energy conservation;
- developing an Enviro Action Plan for the board; and
- participating in a recognized green building-rating system that "facilitates and certifies higher energy and environmental performance of buildings and communities."

Another board introduced in summer 2008 building automation systems in several of its schools to track consumption data.

MINISTRY RESPONSE

In addition to the energy conservation initiative, the Ministry's Operational Review project has established leading practices in energy management which include establishing a multi-year energy management plan, systems to track energy consumption, and the use of centralized technology to automate energy conservation.

Attendance Management

Facilities staff are allocated sick leave of two days per month or 24 days per year. At all three of the boards, facilities departments tracked staff absenteeism. Figure 7 shows the sick-leave statistics for maintenance and custodial staff at those boards for the past two years. As it indicates, in 2005/06, the number of sick days ranged from 8.6 to 13.4 days for custodial staff and from 6.7 to 11.3 days for maintenance staff.

The human resources departments at Boards A and C prepare weekly reports on staff attendance. For example, the reports at one board identify employees who took more than three sick days in a week and 15 or more consecutive days of sick leave. These employees are brought to the attention of their supervisors. If asked, this board's human

Figure 7: Average Number of Sick Days Taken, 2004/05–2005/06

Source of data: the three school boards audited

	Board A	Board B	Board C
Custodial Staff			
2004/05	8.6	13.3	8.7
2005/06	8.6	13.4	9.1
Maintenance Staff			
2004/05	7.6	7.3	12.6
2005/06	6.7	9.1	11.3

resources department can also produce reports to identify potential abuses of sick time, such as absences on Fridays and Mondays.

At Board B, the employee attendance system does not flag employees with significant numbers of absences. This board's human resources department does not provide any attendance reports. This board's practice, instead, is to leave it up to supervisors to identify employees with problematic attendance.

RECOMMENDATION 9

To help minimize sick-leave absences, school boards should:

- track the attendance of all employees; and
- inform supervisors of any employees with high numbers, or unusual patterns, of absences and, if improvements are not noted, consider implementing a more formal attendance improvement program for such employees.

SUMMARY OF SCHOOL BOARDS' RESPONSES

The boards agreed with the recommendation. Two boards agreed that more work in this area is needed. One board indicated that supervisors are informed of high incidence rates and unusual patterns of absence, and that corrective action is taken.

MINISTRY RESPONSE

The Ministry is supporting the Efficiency and Effectiveness Committee of the Council of Senior Business Officials (COSBO) in its examination of school boards attendance management programs. The report from this project will highlight current absenteeism levels and attendance management programs in district school boards, and integrate the data with additional research on best practices.

Attendance management policies and systems to support employees and minimize the cost of absenteeism has been identified as a leading practice through the Operational Reviews process.

LEGISLATION AND REGULATIONS FOR SCHOOL FACILITIES

School boards must comply with all relevant fire and municipal building codes and other legislative and regulatory requirements. The facilities staff at all three boards we audited said that it is difficult and time-consuming to keep current with such requirements.

One board has its legal staff review the *Ontario Gazette*, which publishes new legislation and regulations. The facilities staff at the two other boards indicated that they identify changes to legislation and regulations informally. For example, they learn about changes through contacts with various government, regulatory, and industry agencies and associations.

The facilities staff at all three boards agreed that having one central organization responsible for making the 72 school boards aware of legislative and regulatory changes would save individual school boards from having to do their own tracking and reduce the risk of non-compliance.

RECOMMENDATION 10

To help ensure that all school boards are aware of changes in legislative and regulatory requirements affecting facility management and to minimize duplication of effort, the Ministry of Education and school boards should work on centralizing the collection of this information.

SUMMARY OF SCHOOL BOARDS' RESPONSES

All three boards we audited indicated that centralizing the collection of legislative and regulatory requirements that affect facility management would be a worthwhile initiative.

MINISTRY RESPONSE

The Ministry agrees with the recommendation. In the past, the Ministry has co-ordinated the distribution of critical information, such as the Ministry of the Environment's drinking-water regulations, to all school boards.

The Ministry will continue to highlight regulatory requirements affecting facility management for school boards and will work with school board associations to support appropriate information and training initiatives.

Chapter 3

Section

3.14 Special Education

Background

Under the *Education Act*, the Ministry of Education (Ministry) has overall responsibility for the development of legislation, regulations, and policies for the provision of special education programs and services to students with special education needs. The province's 72 publicly funded school boards are responsible for delivering these programs and services in accordance with ministry requirements.

The *Education Act* defines a student with special education needs as one who requires placement in a special education program because he or she has one or more special behavioural, communicative, intellectual, or physical needs. School boards determine whether students have special needs, and, if so, they identify their strengths and needs and recommend the appropriate placements. As can be seen from Figure 1, the most common categories of special needs are learning disability, giftedness, and mild intellectual disability.

The Ministry bases its special education policies and regulations on the principle that placing students with special education needs in regular classrooms should be the normal practice when it meets the students' needs and parents agree to it. However, school boards may place a student in special education classes if this better meets his or her needs and is supported by the parents.

Figure 1: Special Education Enrolment by Area of Special Need in Publicly Funded Schools, 2006/07

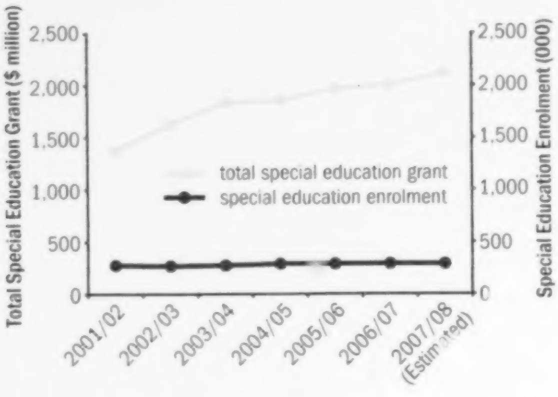
Source of data: Ministry of Education

Type of Special Need	#	%
learning disability	84,556	28.98
mild intellectual disability	23,718	8.13
behaviour	13,743	4.71
language impairment	11,769	4.03
developmental disability	10,406	3.57
multiple exceptionalities	9,557	3.28
autism	9,357	3.21
physical disability	3,598	1.23
hearing (deaf and hard of hearing)	2,416	0.83
vision (blind and low vision)	771	0.26
speech impairment	638	0.22
hearing and vision (deaf and deaf-blind alternative programs)	43	0.01
Total Excluding Giftedness	**170,572**	**58.46**
giftedness	26,609	9.12
Total Identified Students	**197,181**	**67.58**
non-identified students receiving special education services	94,583	32.42
Total Students Receiving Special Education Services	**291,764**	**100.00**

Special education grants are a significant component of school board funding, amounting to $2.1 billion or over 12% of annual operating grants. Figure 2 shows that since the 2001/02 school year, special education grants have increased by 54%, which raised these grants from 10.6% to 12.3% of

Figure 2: Special Education Grant and Enrolment, 2001/02–2007/08

Source of data: Ministry of Education



total operating grants to school boards. The figure also shows that the number of students receiving special education services grew little over this period, increasing from 277,000 to 290,000 students, or about 5%.

Audit Objective and Scope

Our audit objective was to assess whether the Ministry of Education (Ministry) and selected school boards had adequate procedures for:

- assessing the extent to which special education programs and services met the needs of students with special education needs; and
- ensuring that programs and services complied with legislation, regulations, and policies regarding special education and were delivered economically and efficiently.

The scope of our work included examining the Ministry's systems and procedures for overseeing the delivery of special education programs and services by school boards, and visiting three school boards (Toronto District School Board, Simcoe County District School Board, and Thunder Bay Catholic District School Board) to review their delivery of special education programs and services at a sample of their schools. The criteria we used to address our audit objective were agreed to by senior management at the Ministry and the school boards that we visited.

During our audit we interviewed staff and reviewed documentation from the Ministry's Strategic Planning and Elementary/Secondary Programs Division, the Instruction and Leadership Development Division, and the Elementary/Secondary Business and Finance Division. At the three school boards we interviewed principals, special education teachers, classroom teachers, and supervisory staff, and reviewed the documentation related to services provided to a sample of students with special education needs. We also met with a psychologist and several members of one board's Special Education Advisory Committee. In addition, a number of parents volunteered to answer a brief questionnaire, and we received comments from other members of the public.

Our audit did not look at programs for gifted students, as their needs are very different from those of other students with special education needs. Our scope also excluded programs for children and youth in non-school settings: care and treatment, custody, and correctional facilities.

Summary

While the Ministry of Education (Ministry) has increased special education funding since the 2001/02 school year by 54%, the number of students served increased by only about 5%. Although provincial test results and our audit indicated that progress has been made since our last audit in 2001, there are still a number of areas where practices need to be improved to ensure that the significant funding increases result in continuous improvement in the outcomes for students with special education needs in Ontario.

Some of our more significant observations are as follows:

- The proportion of Individual Education Plans (IEPs) in our sample completed by the due date improved from 17% in our 2001 audit to almost 50% in this audit. The availability of information from student information systems has also improved since our last audit, and a number of information system initiatives were under way at the time of our audit. However, the information that school boards currently collect about students with special education needs, how early they are identified, the educational programs provided to them, and the results achieved was not yet sufficient to support effective planning and service delivery, program oversight, and the identification of effective practices.
- The IEPs that we examined varied in quality with respect to setting the learning goals and expectations for students with special education needs working toward modified curriculum expectations. The learning goals and learning expectations for numeracy and literacy were generally measurable. However, the goals and expectations for other subjects were often vague. As a result, schools could not measure the gap between the performance of students with special education needs and regular curriculum expectations and assess whether the change in the performance gap between reporting periods was appropriate in the circumstances.
- Identification, Placement, and Review Committees (IPRCs) make significant decisions regarding the education of students with special education needs, but do not adequately document the rationale for their decisions and the evidence they relied on. As a result, information that would be of use to IPRCs conducting annual reviews and to teachers in connection with the preparation of IEPs is not available. The lack of detailed information on the proceedings also limits the ability of boards to identify areas for systemic improvement in IPRC procedures.
- School boards did not have sufficient evidence to demonstrate compliance with the requirement in Regulation 181/98 of the *Education Act* to consult with parents in connection with IPRCs and in the preparation of IEPs. We also found that the Ministry's expectations in this regard were not sufficiently detailed.
- The process for formally identifying students with special education needs—including IPRC meetings and professional assessments—is resource intensive. One school board we audited conducted fewer formal assessments to help offset the cost of additional special education teachers. The Ministry needs to compare the contribution to student outcomes made by the formal identification process to that made by additional direct services provided by special education teachers and identify the strategy that results in the greater benefits to students.
- The provincial report card is not designed to report on the achievement of the various learning expectations in the IEPs of students who are being assessed against modified and alternative learning expectations, and on the extent to which students with special education needs have met their learning goals. As a result, parents and students were not adequately informed about the performance of students who were being assessed against modified and alternative expectations.
- We found examples, particularly at the elementary school level, where report cards discussed the student's positive attributes but did not provide a candid discussion of the student's performance relative to expectations. As a result, some parents may not fully understand their child's rate of progress and areas for improvement.
- The required planning form for the transition from secondary school to work, community living, or further education was being completed by schools. However, there was no documentation on whether the actions

noted on the planning form were completed and with what degree of success. There was also no documentation on the work done by schools to manage the transition of students with special education needs from school to school and from elementary to secondary school.

- The Ministry does not require that school boards establish procedures to assess the quality of the special education services and supports at their schools and whether the schools complied with legislation, regulations, and policies. None of the school boards we audited had established such procedures.

Detailed Audit Observations

DEVELOPMENTS SINCE OUR LAST AUDIT

The Ministry revised the structure of special education grants following our audit in 2001. At that time, funding consisted of the special education per pupil amount (SEPPA), which was based on each school board's total enrolment, plus four components that boards obtained by submitting claims to the Ministry, as follows:

- The intensive support amount 1 (ISA 1) funded purchases of assistive equipment.
- ISA 2 and ISA 3 funded the additional cost of services and supports for high needs students.
- The special incidence portion (SIP) funded the additional cost of services and supports for the few extremely high needs students.
- ISA 4 funded the cost of services and supports for children and youth in non-school settings: care and treatment, custody, and correctional facilities.

The ISA 2 and 3 components were criticized by school boards and parents. School boards complained of the time-consuming claims process. Parents complained because these components gave school boards the financial incentive to develop what were in their view overly negative profiles of their children. As a result, starting in the 2004/05 school year, the Ministry converted the ISA 2 and 3 components to the high needs amount (HNA) component that, like SEPPA, is based on each board's total enrolment. These two components accounted for $1.95 billion of the $2.12 billion special education grant provided to boards in 2007/08. The ISA 1 component (renamed the special equipment amount), the ISA 4 component (renamed the facilities amount), and the SIP component continue to be claims-based.

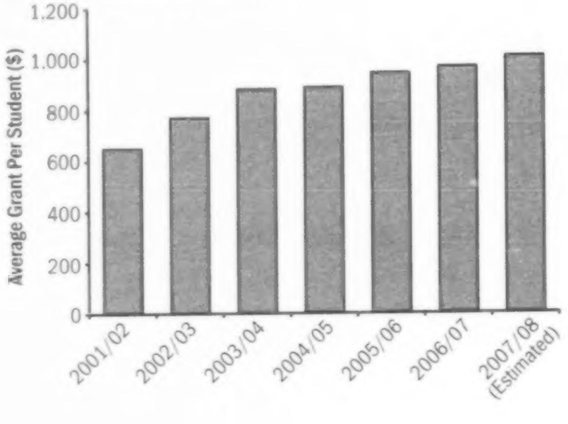
Although enrolment at the province's school boards has been declining since 2002/03, the SEPPA and HNA components to boards have been increasing. This is due to the fact that, as Figure 3 shows, the average of these components per pupil has risen from the equivalent of $650 in 2001/02 to an estimated $1,009 in 2007/08.

Since our 2001 audit of special education grants to school boards, the Ministry has initiated two reviews of special education:

- In August 2005 the Ministry published *Education for All: The Report of the Expert Panel on Literacy and Numeracy Instruction for Students With Special Education Needs, Kindergarten to Grade 6*. The Ministry advised us that the report is being updated so that it addresses kindergarten to grade 12.

Figure 3: Grants Based on Total Enrolment (SEPPA and HNA)

Source of data: Ministry of Education



- In May 2006 the Ministry published *Special Education Transformation: The Report of the Co-Chairs with the Recommendations of the Working Table on Special Education*.

In response to the Expert Panel's report, the Ministry allocated $25 million to the Council of Ontario Directors of Education (CODE) in each of 2005/06 and 2006/07 for projects to support the implementation of the Expert Panel's 10 recommendations. CODE's October 2006 report on its activities indicated that every board in Ontario received funding to implement special education projects. The 2007 report stated that the 2006/07 project design was "developed directly from the lessons learned during the initial year of implementation"; the project examined how educators learn professionally and improve their teaching practices, since "there will not be sustainable gains in student achievement or school improvement without improvement in teaching."

CODE also collected data and interviewed school board personnel regarding the outcomes of the projects at each board. The October 2006 interim report noted positive changes, such as:

- an increase from 2% to 29% in the percentage of students with Individual Education Plans (IEPs) who performed at levels 3 and 4 (4 being the highest level) at one school board; and
- an increase in the success rate on the Ontario Secondary School Literacy Test of students who need assistive technology. A training project on the use of assistive technology was conducted in four of the 10 secondary schools at one school board. The success rate of students who needed assistive technology to write tests was 63% at these four schools, compared to 41% at the board's other six secondary schools.

As can be seen in Figure 4, the Education Quality and Accountability Office reports indicated that the achievement of students with special education needs on provincial tests has steadily improved since 2002.

Figure 4: Performance of Students with Special Education Needs (Excluding Gifted) on Provincial Tests

Source of data: Education Quality and Accountability Office reports

Type of Special Need	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Percentage at or above the Provincial Standard on Grade 3, 6, and 9 Tests						
Grade 3						
reading	16	19	18	21	22	25
writing	14	15	16	19	20	37
mathematics	27	31	29	31	35	35
Grade 6						
reading	16	17	19	22	24	27
writing	12	11	14	17	17	28
mathematics	18	20	21	21	21	23
Grade 9 Mathematics						
academic	50	50	52	58	57	63
applied	15	18	19	28	28	27
Percentage Successful on Literacy Test						
Ontario Secondary School Literacy Test	37[1]	46[1]	57[1]	55[2]	53[2]	52[2]

[1] result as of October of the school year

[2] result as of March of the school year

IDENTIFICATION AND PLACEMENT

The *Education Act* defines an exceptional child as one who requires placement in a special education program owing to his or her behavioural, communicative, intellectual, or physical needs, or multiple exceptionalities. The Ministry of Education has provided definitions for Identification, Placement, and Review Committees (IPRCs) to use in formally identifying exceptional students, as shown in Figure 1. Regulation 181/98 requires school boards to establish IPRCs to determine whether students are exceptional and, if so, in what ways they are exceptional. IPRCs consist of three or more persons, one of whom must be a principal or a supervisory officer employed by the board. IPRCs may consider reports from teachers, psychologists, and/or other professionals who have assessed the students. When IPRCs decide that a student is exceptional, they must also identify his or her strengths and needs, recommend the appropriate placement, and review these decisions annually unless the parents agree to waive the annual review by the IPRC.

Figure 1 also shows that almost one-third of students receiving special education services have not been formally identified. This is because, in some cases, a school may start to provide special education programs and services to a student before formal identification has been completed; in other cases, parents may decide that they do not want their child labelled as exceptional; or parents and the school may agree that formal identification is unnecessary since the current special education program is meeting the student's needs.

Timely Intervention

Regulation 181/98 of the *Education Act* in conjunction with the Ministry's Policy/Program Memorandum 11 requires school boards to have procedures in place to identify and respond to students' learning needs. At the school boards we audited, the process for addressing the needs of students who are not meeting curriculum expectations and are not responding to extra help from classroom teachers can be broadly described as follows:

- Classroom teachers or special education teachers administer diagnostic tests to identify a student's specific areas of need, such as verbal or reading comprehension, and assist teachers in determining what adjustments to make to their strategies for helping the students to progress.
- If these strategies are not successful, the student is referred to an in-school support team, which reviews each case and recommends appropriate action that may include preparation of a formal plan for the student's education referred to in the Regulation as an Individual Education Plan (IEP). In addition to special education teachers, support teams may include school administrators and other in-school professionals employed by the board, such as psychologists.
- If there is still no improvement in the student's performance, the support team recommends to the principal and parents that the student be referred to the school board's professional support staff for detailed assessments of his or her strengths and needs. These assessments assist teachers in developing IEPs and principals in deciding whether students should be referred to IPRCs.

Although the Ministry and the boards we audited agreed that the early identification of a student's special needs is important, they had not established timelines in this regard to monitor whether their early identification procedures were effective. We recognize that, owing to the many variations in student circumstances, needs, and development, there are cases where the identification of a student's special education needs later than usual is unavoidable. However, in other cases, late identifications may be the result of inadequate early identification procedures at a school that should be reviewed by board management and corrected.

Setting target timelines for the identification of special education needs provides the basis for reporting exceptions to administrators. This enables them to focus their attention on those few cases that are most likely to be the result of procedural problems and more easily identify cases where corrective action should be taken.

In the absence of ministry or board targets, we used as our audit criterion that students with special education needs who had started school at the board by the beginning of grade 1, should normally have their first IEP by the end of grade 4. For those students in our sample who started school at the boards by the beginning of grade 1, we found that 89% received their first IEP by the end of grade 4 or their file contained information that indicated why they were late. However, 11% did not, and there was no information in the student's file as to why this was the case. If the Ministry and boards were to determine that this was an appropriate criterion, we would expect to see, as student information systems are enhanced, these cases reported to administrators, sorted by school, to enable them to review the early identification procedures and, if required, take corrective action at schools that have not been effective at early identification.

We also found cases that indicated that procedures for identifying special education needs for English-language learners (ELL) may need to be improved. For example, a student who had been receiving ELL support from grade 1 onward was still failing both language and mathematics and was performing poorly in other subjects in grade 5. The student received his first IEP in grade 6. In grade 8 an IPRC determined that the student had special needs and he was placed in a special education class. He was transferred to secondary school at the end of grade 8; however, he did not accumulate any credits in his first year at secondary school.

RECOMMENDATION 1

To ensure that students with special education needs are identified in a timely manner, the Ministry of Education should work with school boards to establish procedures to monitor the effectiveness of schools' early identification practices and take corrective action where they have not been effective.

MINISTRY RESPONSE

The Ministry will work with boards to identify an appropriate period of assessment leading to the identification of student needs. This work will build on recent ministry work with the Ontario Psychological Association and the Learning Disabilities Association of Ontario's Web Based Teaching Tool.

Documenting IPRC Proceedings

IPRCs make decisions that have a significant impact on students' educational programs. Their decision process is complex and requires consideration of a number of factors and reports.

It is common practice in most organizations to document discussions at meetings where important decisions are made. Such records, including reports submitted to and relied on by the committees concerned, support accountability for decisions, enable processes to be reviewed and improved, and assist future committees in understanding past decisions. However, Regulation 181/98 does not require IPRCs to fully document their proceedings, and none of the school boards we audited did so. Instead, the Regulation requires IPRCs to document only their decisions regarding a student's:

- exceptionalities, if any;
- placement and, if they decide to place the student in a special education class full-time, their reasons for doing so; and
- strengths and needs.

As a result, the statements of decision that IPRCs prepared for the students in our sample provided little information that would be of use to teachers. They were also insufficient to facilitate the review and improvement of IPRC procedures or to assist subsequent IPRCs in understanding past decisions—Regulation 181/98 requires boards to hold annual reviews by IPRCs to reassess the placement and identification decisions made by previous IPRCs, unless a waiver is signed by the parents. Since the composition of the original IPRCs and the IPRCs conducting annual reviews is usually different, adequate records of meetings would assist IPRCs conducting annual reviews in understanding past decisions. For example:

- Our sample included cases where the original IPRC decision regarding a student's exceptionality was not consistent with other information in the student's file. Without a record of the evidence relied on in making these decisions and their rationale, the reasons for these inconsistencies and whether changes in procedures were necessary could not be determined.
- A typical reason for placing a student in a special education class was that the student needed extensive modification of the curriculum. There was no elaboration on what the IPRC considered to be extensive modification, and no description of the supports and services needed by the student that could not reasonably be provided in a regular classroom.

We also noted that in some cases IPRCs did not follow the Ministry's IEP guide with respect to documenting strengths and needs. The guide's examples make clear that the strengths to be recorded are those that can be incorporated into individual education plans to assist students in making further and/or faster academic progress than they might otherwise have made. However, we found several instances where IPRC members appeared to be unsure about what to record as strengths and noted characteristics that had little value for instructional purposes, such as "affectionate," "eager to please," and "responds to praise."

RECOMMENDATION 2

To help ensure that Identification, Placement, and Review Committees (IPRCs) provide information that is useful to teachers, assists subsequent IPRCs in understanding past decisions, and facilitates the review and improvement of procedures, the Ministry of Education should require IPRCs to properly document their proceedings, including:

- the rationale for their decisions and a record of the evidence that was submitted to the IPRCs and the evidence the IPRCs relied on in reaching each of their decisions regarding exceptionalities, placement, and strengths and needs; and
- in the event that they decide to place a student in a special education class, a description of the supports and services needed by the student that could not reasonably be provided in a regular classroom.

MINISTRY RESPONSE

The Ministry will work with school boards to improve the documentation of the IPRC process to support communication with parents, students, and relevant systems.

Parental Involvement in the IPRC Process

Regulation 181/98 requires school boards to provide parents with a Parents' Guide explaining the IPRC process. In addition, the Ministry's Special Education Guide for educators recommends that a staff member meet with parents before the IPRC meeting to discuss the IPRC process and to answer any questions. The Special Education Guide also suggests that IPRCs consider any information about the student submitted by parents, and that IPRCs encourage parents and students to ask questions and participate in IPRC meetings.

However, the majority of the files we examined did not contain evidence that the schools had sent a Parents' Guide to parents in advance of the original IPRC meetings. None of the files we examined contained evidence that a staff member had met with parents before the IPRC meeting or had attempted to arrange such a meeting. In the absence of documentation, we could not determine whether the members of the IPRC had encouraged parents and students to participate in the discussions at the meeting.

Although the Ministry's Special Education Guide states that IPRCs should consider information submitted by parents, the guide:

- does not suggest that school personnel should take the initiative to request information from parents that may be relevant to IPRC decisions; and
- does not include examples of the type of information that should be requested from parents to assist IPRCs in making their decisions.

RECOMMENDATION 3

To help ensure that parents are informed about and involved in the Identification, Placement, and Review Committee (IPRC) process and that IPRCs have all the information necessary to make informed exceptionality and placement decisions, the Ministry of Education should require that school boards retain evidence, such as copies of letters to parents, that parents were informed about the IPRC process and that their input was sought on their child's strengths and needs before the original IPRC meeting.

MINISTRY RESPONSE

The Ministry will work with the education sector to improve the process for the collection, sharing, and storage of student information from parents.

Resources Allocated to the IPRC Process

The formal identification process generally involves the use of resources to obtain professional assessments of students that may not otherwise have been required, and the use of staff time to prepare for and attend initial IPRC meetings and annual IPRC review meetings. One of the boards we visited indicated that it discouraged the formal identification of students via IPRCs and strictly controlled the number of referrals for professional assessments that schools were allowed to make. As a result, only 51% of its students in special education programs had been formally identified, as compared to the provincial average of 68% (Figure 1). Also, where students had been formally identified, parents typically complied with this board's requests to waive annual reviews by IPRCs, so very few resources were allocated to this activity.

We were advised by board staff that, by controlling expenditures on the IPRC process, the board was able to increase direct services to students, such as providing more special education teachers. This made time for activities such as managing student resource rooms, consulting with other teachers on strategies and accommodations, and co-ordinating the preparation of IEPs. Classroom teachers at this board said that they received a high level of support from the special education teachers. Also, unlike classroom teachers who typically have students for one year, special education teachers may deal with students with special education needs for several years, which puts them in a better position to monitor progress and co-ordinate the preparation of IEPs.

Clearly, there are pros and cons to these different resource-allocation decisions. Comparing the contribution to student outcomes made by the formal identification process to that made by additional direct services provided by special education teachers would provide useful information for all school boards. To avoid duplication, it would be appropriate for the Ministry rather than individual boards to examine this issue.

RECOMMENDATION 4

To help ensure that school boards maximize the benefits from special education expenditures, the Ministry of Education should compare the contribution to student outcomes made by the current resource-intensive formal identification process to the contribution that additional direct services—such as more special education teachers—would provide and determine the extent to which formal identifications should be used.

MINISTRY RESPONSE

The Ministry will continue to work with school boards to optimize the use of resources to improve learning for students with special education needs without compromising the rights of parents to request the Identification, Placement, and Review Committee process when desired.

INDIVIDUAL EDUCATION PLANS

The *Education Act* states that a special education program "includes a plan containing specific objectives and an outline of educational services that meets the needs of the exceptional pupil." This plan is referred to as an Individual Education Plan (IEP). Regulation 181/98 requires principals to ensure that IEPs are prepared for students who have been identified as exceptional by IPRCs. The school boards we audited also prepared IEPs for students who had not been formally identified by IPRCs but whose academic performance was well below expectations.

The Ministry's IEP guide defines an IEP as a plan describing the special education program and/or services required by a student with special needs that:

- includes learning expectations that are different from the regular curriculum expectations for a subject;
- includes the accommodations needed by the student to help achieve and/or demonstrate the achievement of his or her learning expectations; and
- serves as a planning and accountability tool for those who have responsibilities under the plan to help the student meet the stated goals and learning expectations.

The IEP guide describes two types of different learning expectations: modified and alternative. Modified expectations are learning expectations that are based on the regular curriculum expectations. In some cases, students work toward the regular curriculum expectations for an earlier grade level—for example, a grade 4 student might work on grade 3 mathematics. For subjects not taught in earlier grades, teachers reduce the number and complexity of the learning expectations set out in the regular curriculum: the Ministry's IEP guide has an example where, for grade 8 history, a student is expected to identify the colonies that joined Confederation but not their dates of entry, as would be part of the regular curriculum expectations.

At the secondary level, principals must decide and notify parents and students whether modifications are too significant for the courses to qualify as credits toward the Ontario Secondary School Diploma. Because of the impact on credits, we did not see many examples of modified expectations at the secondary level.

Alternative expectations are learning expectations that are not based on the regular curriculum expectations but instead are designed to help students acquire everyday knowledge and skills. Examples are Transit Training and Community Exploration, and Money Management and Personal Banking. At the secondary level, these courses do not qualify as credits for the Ontario Secondary School Diploma.

Accommodations are supports or services that are not provided to the general student population. For example, students may receive help with taking notes or may have access to specialized software and computers. The IEPs of many students with special education needs, particularly at the secondary level, contain only accommodations. The students are assessed against regular curriculum expectations, and consequently, at the secondary level, earn credits toward Ontario Secondary School Diplomas.

Information for Inclusion in IEPs

The Ministry publishes *The Individual Education Plan (IEP): A Resource Guide* to assist school personnel in preparing IEPs. The guide describes a number of steps in developing IEPs, including:

- collecting relevant information such as assessments by psychologists and other professionals, educational diagnostic tests, current levels of achievement, and teaching strategies that have been helpful; and
- consulting with parents, previous teachers, psychologists, and other professionals who have information relevant to the student's educational program.

Schools file such information in each student's Ontario Student Record. The Ontario Student Records we reviewed generally contained assessments by psychologists and other professionals, where appropriate. Report cards included in Ontario Student Records were the primary source of information on current levels of achievement. However, none of the files contained summaries of consultations with parents, previous teachers, psychologists, and other professionals. It was the practice of one board to file educational diagnostic tests and minutes of in-school support team meetings in these records. At one school, teachers reported in IEPs each term which accommodations—such as prompts to stay on tasks, more frequent breaks, and extra time on tests—had been effective. Such useful information was missing or incomplete at other schools.

Regulation 181/98 requires that schools consult with parents and students aged 16 or older when developing IEPs. However, neither the Ministry nor the boards had provided schools with guidance on the type of information that principals and teachers should attempt to obtain from parents, such as:

- the types of skills and abilities that might be demonstrated in the home environment that could be incorporated into teaching strategies; and
- specifics on the amount of support the parents can provide with homework and remedial assignments during the school year and summer.

RECOMMENDATION 5

To help ensure that teachers take all information relevant to students' education into account when preparing Individual Education Plans (IEPs), the Ministry of Education should:

- **provide school boards with guidance on the type of information they should obtain from parents to help in preparing IEPs; and**
- **encourage school boards to ensure that information useful in preparing IEPs—such as summaries of information obtained from consultations with parents and psychologists and other professionals, strategies and accommodations tried by previous teachers, the results of educational diagnostic tests, and minutes of in-school support team meetings—is available to and used by the preparers.**

MINISTRY RESPONSE

The Ministry will continue its strong focus on improving the IEP process. This will include creating additional resources to support schools in the gathering, recording, and sharing of information from parents to inform the IEP process. This would also continue to include training for school board and school staff around current ministry guidelines, use of the IEP template, and additional resources to support IEPs.

Setting Learning Goals and Expectations and Monitoring Student Progress

The Ministry sets the learning goals for regular education students for each subject in its curriculum policy documents. Teachers, in consultation with parents and students aged 16 and older, set the learning goals for special education students.

Monitoring Student Progress

The Ministry's IEP guide notes that IEPs provide "an opportunity for all those involved with the student to work together to provide a program that will foster achievement and success." One can, accordingly, judge the effectiveness of IEPs by the amount of progress students with special education needs make during each school year. In order to assess the amount of progress made by their students with special education needs, schools need to accurately measure students' positions at the beginning and again at the end of each school year. The IEP guide refers to these positions as students' current levels of achievement.

Helping students with special education needs realize their potential requires classroom teachers and special education teachers, in consultation with parents, to establish challenging but achievable learning goals. The Ministry's IEP guide defines an annual learning goal as a description of what a student can reasonably be expected to accomplish in a subject by the end of the school year. These learning goals provide teachers with the context they require to develop learning expectations for each term; students who achieve these expectations have accomplished these learning goals.

Students with special education needs are often not meeting the Ministry's regular curriculum learning goals for their age. For example, by the end of grade 3, a student with special education needs might have completed the learning expectations in language for the first two terms of grade 2. This is four terms behind the regular curriculum expectations (the student is behind by the last term of grade 2 plus the three terms of grade 3).

The IEP guide indicates that, in setting goals, teachers should consider the student's rate of acquisition of knowledge and skills (measured as the increase in the knowledge and skills the student has acquired over a given time period such as a school term or year). Monitoring changes in students' rates of acquisition of knowledge and skills would also assist teachers in assessing the effectiveness of teaching strategies and accommodations, and replacing those strategies and accommodations which are not working as expected. Determining students' rates of acquisition of knowledge and skills requires accurate measures of the extent to which students with special education needs achieve their learning goals each year. However, the Ministry and the boards we visited had not provided schools with detailed guidance on how to:

- measure rates of acquisition of knowledge and skills; and
- use this information to assess the effectiveness of teaching strategies and accommodations, and monitor the progress of students with special education needs.

As indicated in Figure 1, the most common exceptionality is learning disabilities. The psychological assessments of most of the students in our sample who had learning disabilities indicated that they were in the average range in most respects, except for their learning disability. Although students would have a gap between their current level of achievement and regular curriculum expectations at the time they were identified, with appropriate teaching strategies and accommodations, they would normally be expected to decrease this gap over time and begin meeting regular curriculum learning expectations. For these students, we expected to see:

- a clear assessment of the gap between the students' current level of achievement and regular curriculum expectations at the start of the school year for each subject where the students are being assessed against modified expectations;
- a clear goal for the change in the gap by the end of the school year, taking into account expected improvements in students' rates of acquisition of knowledge and skills as a result of the introduction and ongoing refinement of teaching strategies and accommodations;

- assessments of rates of acquisition of knowledge and skills, the extent to which annual learning goals were met, and the impact of these results on whether to continue or revise the current teaching strategies and accommodations; and
- the expected time frame for students to eliminate the gap between their current level of achievement and regular curriculum expectations.

None of the Ontario Student Records we examined met these expectations. For example, a student in our sample was identified as learning disabled in grade 2, but otherwise in the low average range of ability. This student's educational assessment stated that he was at the grade 1 level in language and mathematics. By the time this student was in grade 8, his IEP stated that he was working on the learning expectations for grade 5 language and grade 6 mathematics. Although the gap between this student's level of achievement and regular curriculum expectations had increased since grade 2, there was no evidence in his file that the school had assessed whether his lack of progress in closing the gap was appropriate in the circumstances.

Similarly, there was no assessment in the Ontario Student Records we reviewed as to why some students were performing better than expected. In our sample, several secondary school students designated by IPRCs as having mild intellectual disabilities, for example, were performing at grade level for applied courses, with average marks of over 70%. Our sample also included a student, designated by an IPRC as having pervasive developmental disorders, who had transferred from an alternative program to the regular secondary school program and was succeeding with intensive support. Such cases could have been the result of good practices that should be identified and shared with other schools, or the result of misidentifications that should be investigated with a view to improving the identification processes.

In addition to cases where the gap between a student's current level of achievement and the regular curriculum expectations is expected to decrease over time, there are also cases where the gap will widen over time, with no expectation that the student will return to regular curriculum expectations. In these cases, regular curriculum expectations may not be an appropriate benchmark to assess students' progress against.

RECOMMENDATION 6

To help ensure that schools properly monitor the progress of students with special education needs and identify effective practices, the Ministry of Education should provide schools with guidance on:

- **how to measure the amount of students' progress in acquiring knowledge and skills, and use this information to assess the effectiveness of the teaching strategies and accommodations and make changes where appropriate; and**
- **monitoring the progress of students with special education needs against an appropriate benchmark—which would be, in many cases, regular curriculum expectations—and assessing whether changes in the gap between students' current levels of achievement and regular curriculum expectations are appropriate.**

MINISTRY RESPONSE

The Ministry will continue to support boards in the use of the IEP to monitor effective instructional practices for students with special education needs. In addition, the Ministry is working with school boards to establish additional measures of success for students with special education needs.

Setting Learning Goals and Expectations

In response to our 2001 audit of special education, the Ministry initiated an extensive review of IEPs at one-third of the province's school boards for three consecutive years—2001, 2002, and 2003. The Ministry conducted a follow-up program, which it called the IEP Collaborative Review: 2006-07, during late 2006 and early 2007. As part of this follow-up program, all school boards were required to submit to the Ministry samples of elementary school and secondary school IEPs, along with their corresponding report cards. The Ministry reviewed the IEPs for proper organization and content. The Ministry's report on the results of its review included the following findings:

- The current level of achievement was often either omitted or incorrectly stated.
- In the majority of IEPs, annual program goals were general statements, rather than observable or measurable information.
- Modified learning expectations were not stated as measurable tasks.

Our audit findings confirmed that there was room for improvement in these areas, both in the Ministry's IEP guide and at the schools we visited, as follows:

- Accurately stating a student's current level of achievement is a key first step in setting annual learning goals and expectations. We found that 47% of the IEPs in our sample that had modified learning expectations contained errors regarding the current level of achievement. We also noted that, in the examples provided in the IEP guide, the student's current level of achievement is stated in whole years rather than in terms. For example, the current level of achievement in language of a student starting grade 4 in September is shown as grade 2, without reference to a term. Clearly, a student who has achieved the learning expectations for the third and final term of a grade is significantly ahead of one who has achieved the expectations for only one term. Since a student's achievements by term are readily available, the rationale for using a less precise measure of student achievement is unclear.
- We found that the examples in the IEP guide for annual learning goals were measurable for language and mathematics but vague for other subjects. For example, the goal for science is that the student "will demonstrate improved understanding of basic concepts." This is not a meaningful goal, since any amount of achievement would meet it. Some of the schools we audited had measurable learning goals such as, for language, the student "will improve reading comprehension skills to a mid-grade 6 level and writing skills to a late grade 5 level." However, we also saw many examples of vague, unmeasurable goals, such as the student "will be able to complete the grade 5 math program with reduced expectations" and the student will "further develop phonetic and decoding skills."
- We found that the learning expectations in the IEPs we reviewed tended to be more specific for mathematics and language than for other subjects. For example, an expectation for mathematics was that the student "learn to add and subtract one-digit whole numbers." For science and technology, in contrast, an IEP had only a vague, unmeasurable expectation that the student would "investigate features of the earth's water resources (oceans, rivers, lakes, glaciers, snowfall, clouds, gas in atmosphere)."

The IEP guide also states that when a student is expected to achieve "most of the subject expectations" at the regular grade level without modifications, those few expectations that were modified "should contain an indication of how they differ from the expectations as they appear in the Ministry's curriculum policy documents." Thus, in the history example from the IEP guide presented earlier, the student is expected to identify the colonies that joined Confederation, but not, as required for the regular curriculum, their dates of entry. However, for subjects other than language and mathematics, we did not see many instances in the IEPs we reviewed that explained differences between the learning expectations in the IEP and those of the regular curriculum.

The IEP guide notes the need for all those responsible for the education of a student with special needs—parents, teachers, guidance counsellor, principal, special education staff and support personnel, and staff from community agencies as appropriate—to develop "a common understanding" of the student's educational goals. The use of more precise measures and language in IEPs would facilitate a common understanding.

RECOMMENDATION 7

To help ensure that teachers, parents, and students with special education needs have a common understanding of the learning goals and expectations for the coming school year, and to assist in monitoring the students' progress:

- the Ministry of Education should update *The Individual Education Plan (IEP): A Resource Guide* so that it:
    - provides examples of specific learning goals for all subjects, as it has done for language and mathematics; and
    - clarifies its expectations regarding explanations of differences between the learning expectations in an IEP and those of the regular curriculum; and
- school boards should ensure that schools set measurable learning goals and measurable learning expectations in IEPs.

MINISTRY RESPONSE

The Ministry will continue to provide examples of effective practice in this area. The Ministry will also continue to provide training around the resource guide for IEPs and the sharing of effective practices regarding measurable learning goals. The Ministry will share effective practices that have led to a 17-point increase in grade 3 EQAO writing scores, and an 11-point increase in grade 6 writing scores this past year.

SUMMARY OF SCHOOL BOARDS' RESPONSES

The three school boards agree that the learning expectations in IEPs should be measurable, and agree that learning goals should be measurable, or observable but written in a way that clearly defines the task expected to be performed. In addition to their ongoing in-service training of teachers and administrators in this regard, the boards intend to check that IEP learning goals and expectations are properly prepared—two boards intend to perform internal reviews of a sample of IEPs similar to the Ministry's collaborative review program, while the other board intends to incorporate this work into its school effectiveness reviews.

One board indicated that it would be helpful if the Ministry provided additional guidance on modifying the learning expectations for secondary school courses, while still allowing the students concerned to obtain credits toward an Ontario Secondary School Diploma.

The board also suggested that, to help meet the training requirements necessitated by the implementation of this and other recommendations, the Ministry should produce 15-to-20-minute video clips/webcasts to provide electronic in-service training that staff could access at any time—for example, a video clip/webcast on how to write a measurable expectation, giving examples for different grades.

Timely Preparation of IEPs

In addition to learning goals and expectations, IEPs set out the accommodations teachers are to provide to students with special education needs and the teaching strategies they should use. It is therefore essential that they be completed promptly. For this reason, Regulation 181/98 requires that IEPs be completed within 30 school days of:

- a student's initial placement in a special education program; and
- the start of school for students returning to a special education program in September. The due date for the 2007/08 school year was October 16.

The proportion of IEPs in our sample completed by the due date improved from 17% in our 2001 audit to almost 50% in this audit. At two schools we visited, the IEPs for all of the files we reviewed had been completed by the due date and signed by the principals, parents, and the students aged 16 and older. At the other schools, the IEPs that missed the due date were late by an average of almost four weeks at elementary schools and seven weeks at secondary schools.

At the secondary school where the IEPs had been completed on time, we were advised that it was the practice to have special education teachers begin meeting with parents and students 16 and older in early September to discuss objectives and plans for the coming year. The purpose of these meetings was to help ensure that parents, teachers, and students understood and agreed to the learning goals and expectations and accommodations.

RECOMMENDATION 8

To help ensure that students with special education needs receive timely support as outlined in their Individual Education Plans (IEPs), the Ministry of Education should compare procedures and practices at a sample of school boards where the IEP deadlines are routinely met with those where they are usually not met, and include examples of timelines and effective practices in the IEP guide.

MINISTRY RESPONSE

The Ministry supports, encourages, and facilitates the sharing of effective practices in the use of IEPs. The Ministry will continue to audit the timeliness and appropriateness of IEPs. The Ministry will continue to use tools such as school board program and financial reviews to complete this process.

REPORTING ON STUDENT PERFORMANCE AND PROGRESS

As described earlier in this report, for those subjects to which their IEPs apply, students with special education needs may work toward:

- regular curriculum expectations for their grade with accommodations;
- modified expectations; or
- alternative expectations.

Suitability of Standard Provincial Report Card for Students with Special Education Needs

The Ministry requires schools to use the standard provincial report card for reporting on the performance of students with special education needs in the first two categories. For students who are attending courses where they are working toward alternative expectations, the Ministry's IEP guide notes that "it is not required, nor is it advisable, for grades or marks to be assigned for the achievement of alternative expectations." The rationale is that a student has either acquired the skill being taught or has not—for example, has learned how to use public transportation independently to travel to selected destinations. However, the Ministry has not developed a report card for alternative expectations, although two of the three boards that we audited had done so.

The use of the provincial report card for students with special education needs who receive only accommodations is appropriate, since they are working toward regular curriculum expectations. However, it is less suitable for reporting on the performance of students working toward modified expectations, because it is not designed to report on which learning expectations they met. As a result, it cannot adequately report on students' progress toward meeting their learning goals. Some schools at one of the boards we visited had also been reporting on students' performance in their IEPs, with marks opposite each learning expectation, but had discontinued this practice in the 2006/07 school year. Teachers advised us that parents found this method of reporting easy to follow. Having such specific information would also assist the teacher responsible for preparing the next IEP.

Meaningful Report Cards

We found examples, particularly at the elementary school level, where report cards discussed the student's positive attributes but did not provide a candid discussion of the student's performance relative to expectations. As a result, some parents may not fully understand their child's rate of progress and areas for improvement. Some parents said that they genuinely did not know how well their children were doing overall. Parents also felt that while their children may have received credit for creativity, oral skills, and effort, the fact that their reading and writing was poor was not reflected in the report card. For example:

- A report card contained comments on how well and independently the student worked, and the subsequent report card observed that the student had proven that a good work ethic resulted in success. After seeing this report card the parents cancelled all special education services. However, according to the IEP, the student was still well below curriculum expectations in language and mathematics.
- Another report card stated that in visual arts the student usually mixed primary colours to create secondary colours. However, since this action was not directly related to a learning objective for visual arts, this comment conveyed little meaningful performance information.

Assessment Guidelines for Modified Expectations

Where students are working toward the curriculum expectations for an earlier grade level, teachers assess them against the expectations for that grade. However, neither the boards nor the Ministry has provided teachers with guidance on how to assess students when they are working toward lowered expectations for the current grade's curriculum. As mentioned earlier, we found that learning expectations in these cases tended to be vague rather than measurable. The result, as teachers indicated to us, is that sometimes all that is being marked is effort. The May 2006 report *Special Education Transformation* also recognized the need to develop appropriate measures to assess and track the progress of students who have modified curriculum expectations.

RECOMMENDATION 9

To help ensure that parents and students understand how students are performing when they are being assessed against modified and alternative expectations, as opposed to regular curriculum expectations:

- **the Ministry of Education should:**
    - **reconsider the suitability of the standard provincial report card for reporting on the performance of students who are working toward modified expectations;**
    - **provide examples of the type of performance reports it expects school boards to use for students working toward alternative expectations; and**
    - **provide guidance to assist teachers in assessing the performance of students who are working toward reduced expectations for the current grade's curriculum; and**
- **school boards should ensure that report cards provide parents and students with meaningful assessments of student performance relative to learning goals and expectations.**

MINISTRY RESPONSE

The Ministry will review reporting for students with special education needs who are working toward modified and/or alternative expectations. The Ministry also supports communicating the achievement of students who are not accessing the provincial curriculum through an alternative format, for example, the Individual Education Plan (IEP). This communication of achievement will include information on how students' modified expectations are to be recognized through the Provincial Skills Certificate, the Ontario Secondary School Diploma, and the provincial report card. The Ministry will continue to enhance its guidelines for IEPs in the area of modified expectations to ensure that benchmarks are shared within the system.

SUMMARY OF SCHOOL BOARDS' RESPONSES

The three school boards agree that parents and students should be provided with meaningful assessments of students' performance, and are working on this issue through in-service training designed to further strengthen the capacity of teachers to assess, evaluate, and report consistently on levels of student performance. One board states that it intends to perform an internal review of a sample of IEPs similar to the Ministry's IEP collaborative review program, which will include checking that report cards for students with special education needs are aligned with IEPs.

TRANSITION PLANNING

For students with special education needs who are 14 years of age or older, Regulation 181/98 requires IEPs to include a plan for transition to appropriate post-secondary-school activities, such as work, further education, and community living. (This requirement does not apply to students whose only exceptionality is giftedness.) The Ministry published *Transition Planning: A Resource Guide* in 2002 to assist school personnel in preparing transition plans.

We found that the plans were completed for all students aged 14 and older at the schools we audited. However, the samples in the transition planning guide, which are designed as to-do lists, have no place to report which of the listed actions were completed and, in the case of items such as co-operative work placements, the degree of success.

In addition to post-secondary transition plans, the Ministry's IEP guide recommends preparing plans to assist students with special education needs in transitions such as changing schools or moving from elementary to secondary school. The May 2006 report *Special Education Transformation* recommended that the Ministry "investigate, share, and implement effective transition practices for students with special education needs. Multiple transition points such as entry to school, between schools, between elementary and secondary panels, and school to postsecondary destinations should be characterized by collaboration between professionals, family, and student, and by co-ordination of service providers."

However, we found that there was no documentation in our sample of Ontario Student Records of planning for transitions such as changing schools or moving from elementary to secondary school, although we were told that the special education teachers at each school discuss these transitions. Better documentation in Ontario Student Records of the teaching strategies and accommodations that worked or did not work would assist in planning for school-to-school and elementary-to-secondary-school transitions.

The transition from elementary to secondary school can be especially difficult for students with special education needs who are working toward modified expectations at the elementary level but change to regular curriculum expectations with accommodations at the secondary level, because the need to obtain credits. For example, a grade 8 student working on grade 6 mathematics would clearly not be prepared for secondary school mathematics, even at the applied level. In some cases this problem was handled by placing the students in what were, in effect, remedial classes to bridge the gap. However, we also saw cases where the transition could have been managed better. For example, a student who had a learning disability was, at the beginning of grade 8, working toward modified expectations and performing, according to his IEP, at the grade 6 level in mathematics and the grade 4 level in language. At the end of grade 8, he was transferred to grade 9, where he enrolled in grade 9 applied-level courses and worked toward curriculum expectations, with accommodations only, on all subjects. He failed all his courses and started showing attendance problems in the second semester of grade 9; by grade 10, he was missing the majority of his classes. Detailed guidance on managing transitions of students who are performing significantly below regular curriculum expectations would help schools provide appropriate supports to students in such situations.

RECOMMENDATION 10

To help ensure that transitions of students with special education needs from school to school, from elementary to secondary school, and from secondary school to work, community living, or further education, are effectively managed, the Ministry of Education should:

- require that schools prepare plans for all transitions—not just transitions from secondary school—and report on the completion and, where applicable, the degree of success of each action in the transition plans; and
- provide more guidance on planning and managing the transitions of students who are working toward modified expectations.

MINISTRY RESPONSE

Through the Student Success initiatives, the Ministry has focused on the transitions from grade 8 to grade 9 for all students, including students with special education needs. The Ministry will continue to review the IEP process as it relates to transition planning.

MONITORING PROGRAM EFFECTIVENESS, QUALITY, AND COMPLIANCE

Principals are required to ensure that their schools comply with numerous legislative, regulatory, and policy requirements regarding the delivery of special education services and programs. Superintendents are responsible for ensuring that the principals who report to them have taken appropriate steps to meet these requirements. However, the Ministry does not require boards to establish a formal inspection process to verify compliance by schools with legislative, regulatory, and policy requirements as, for example, financial institutions would have in place with respect to their branches. The work by superintendents is not a substitute for a formal inspection process that periodically examines the special education services and supports provided to a sample of students and reports on the results of the inspections. None of the boards that we audited had established formal inspection processes.

In addition to compliance, the scope of inspections would also normally include identifying:

- locally initiated best practices that should be considered for implementation across the board; and
- policies and practices that may no longer be appropriate in the light of changes in technology, educational practices, or new research. This information would enable school boards to update their own policies and to provide advice to the Ministry regarding outdated legislative, regulatory, and policy requirements.

As mentioned earlier, in response to our last audit, the Ministry reviewed large samples of IEPs for proper organization and content, in 2001 through 2003, and again in 2006/07. The number and seriousness of the findings in the Ministry's report on its 2006/07 review, as well as our findings in this audit, support the need for formal inspection processes.

Starting in the 2007/08 school year, the Ministry's Literacy and Numeracy Secretariat began providing school boards with financial support—$16 million in 2007/08 and $13 million in 2008/09—and advice regarding a school effectiveness review process. The process is intended to "provide ways in which teachers and school and system administrators accept responsibility to hold themselves accountable for ensuring that research-based, effective strategies are consistently implemented across the province." The Superintendent of Special Education at one of the boards we audited stated that it was her intention to expand the school effectiveness review process to more thoroughly cover special education program quality and compliance.

RECOMMENDATION 11

To help ensure that schools comply with legislation, regulations, and policies, and to improve the quality of special education programs, the Ministry of Education should assist school boards in establishing periodic quality assurance and compliance inspection procedures.

MINISTRY RESPONSE

The Ministry will continue to conduct school board program and financial reviews to assist school boards with their compliance with special education legislation, and also to enhance the sharing of effective practices.

SUMMARY OF SCHOOL BOARDS' RESPONSES

One school board noted that it is pilot-testing a record-management system that is intended to enable staff to electronically complete the forms involved in the Identification, Placement, and Review Committee and Individual Education Plan (IEP) processes and store this information. When implemented, the system will support management oversight of the board's special education program by providing principals, superintendents, and program staff with reports on, for example, the status of IEP development so that they can monitor compliance with the 30-day requirement for the completion of IEPs.

COMPLETENESS OF STUDENT RECORDS AND INFORMATION FOR RESEARCH

The Ministry's Literacy and Numeracy Secretariat stresses the importance of using "research, evidence-based inquiry and data-based decision-making" to improve student achievement. Ministry reports, including *Education for All* (2005) and *Special Education Transformation* (2006), also support this position. Moving the education sector's decision-making and educational practices from the traditional intuitive/experience-based approach to an evidence/research-based approach requires the collection of better and more detailed data about students, their educational programs and services, and their performance.

To facilitate evidence-based instruction, in 2005 the Ministry initiated the Managing Information for Student Achievement (MISA) program to assist boards with the cost of new technology, training, and building of analytical capacity. MISA has provided school boards with $20 million per year over the last three years to fund information system projects and will provide $10 million in 2008/09.

Information Included in Ontario Student Records

The Ministry's *Ontario Student Record (OSR) Guideline*, published in 2000, states that student records should contain basic personal information, report cards, and "additional information identified as being conducive to the improvement of the instruction of the student." Our audit revealed that school boards were not interpreting this guideline in a sufficiently comprehensive manner.

As we have noted earlier, there were numerous omissions from Ontario Student Records of information needed to support an evidence-based approach to the development of IEPs. Information missing at all or some of the schools we audited included: notes on consultations with parents regarding skills and abilities their children demonstrated in the home environment; notes on teaching strategies and accommodations that did or did not work; summaries of the type, timing, and amount of services and supports provided over time; the amount of progress students made during each reporting period; and minutes of in-school support team meetings.

Student Information Systems

To develop evidence-based program delivery models, researchers must be able to conduct large-scale studies that cover the progress of students over a number of years. In addition to contributing to administrative efficiencies, the Ministry's implementation of the Ontario Student Information System (OnSIS) in 2005/06 and ongoing improvements are intended to support such research.

School boards' information systems can also be used to support research if they contain sufficient reliable information about the educational programs and performance of students with special education needs, as well as personal data such as age and exceptionality. As student histories are built up, researchers could track a student's progress over time and compare results among similar groups of students who received different services and supports. This would help identify the special education practices that produce the best results. For example, earlier in this report we noted that one of the boards we audited conducted fewer professional assessments and IPRCs than the other two boards and used the savings to help cover the cost of more special education teachers. The ability to study the performance of students with special education needs over the long term is required to answer questions such as whether this approach results in better student outcomes.

The availability of basic information about students with special education needs from information systems had improved since our audit in 2001, and a number of information system initiatives were underway at the time of our audit. However, the school boards we audited were not yet recording on their systems sufficient information regarding students with special education needs and the services and supports they received to support detailed analyses. As a result, the boards could not yet use information systems in significant ways to help manage and oversee special education programs. For example, we mentioned earlier the need to monitor school effectiveness in early identification of students with special education needs and to review the procedures at schools where exceptions occurred. Boards that recorded the date of a student's first IEP on their information systems could monitor whether students are falling through the cracks. An October 2006 report by the Council of Ontario Directors of Education noted that superintendents responsible for special education identified further learning about the effective use of data as a critical need.

RECOMMENDATION 12

To help improve the effectiveness of special education programs, the Ministry of Education should:

- identify the information that is required to support evidence-based program delivery models (for example, information about the circumstances and educational programs—type, timing, and amount of services and supports—of students with special education needs, as well as the results the students achieve); and

- assist school boards in establishing processes to collect, maintain, and use this information to guide programming decisions.

MINISTRY RESPONSE

The Ministry will continue to develop and share instructional practices built on a foundation that is, wherever possible, evidence-based, research-informed, and connected to the Ministry's priority education goals for students with special education needs. This will build upon the Council of Ontario Directors of Education projects funded over the last three years, including the identification of innovative and effective practices. This will also build upon the recent successes of students with special education needs as identified through data provided by the Education Quality and Accountability Office (EQAO). Examples of these recent successes include a 17% increase in grade 3 English-language students at or above the provincial standard in writing, up from 20% in 2006/07 to 37% in 2007/08, and an 11% increase in grade 6 English-language students at or above the provincial standard in writing, up from 17% in 2006/07 to 28% in 2007/08. These successes have been achieved with a significant rise in the number of students with special education needs taking EQAO tests.

SPECIALIZED EQUIPMENT

Timely Acquisition

Some students with special education needs require specialized equipment, such as computers and software, to enable them to attend school and progress with their studies. For example, a student who has a reading comprehension learning disability has difficulty reading curriculum materials, assignments, and tests. Specialized software and equipment that converts text to speech and vice versa enables the student to learn and demonstrate what he or she has learned. A student's need for specialized equipment must be recommended by a professional such as a psychologist.

School boards pay the first $800 for all equipment purchased for a student each year plus 20% of any related set-up and staff training costs. Boards file claims with the Ministry to obtain Special Equipment Amount (SEA) grants for the balance of the costs.

The Ministry publishes guidelines for SEA claims that also include school boards' responsibilities regarding matters such as maintaining adequate inventory records for equipment; ensuring that equipment is made available to other students when it is no longer needed by the student for whom it was purchased; and ensuring that equipment is properly maintained. However, the guidelines do not contain a service expectation with respect to the time between the date a professional recommends that a student be provided with specialized equipment and the date it is ready for use by the student. None of the boards we audited had established an expectation in this regard. At schools we audited we found that the time between the recommendation and ready-for-use dates typically ranged from three months or less to more than 12 months.

Savings by Purchasing Group Licences

Where students require computer software to assist them with their academic progress, school boards can purchase either a software licence for each student or a group licence for the board. The staff member responsible for purchasing assistive software at one board told us that significant amounts could be saved by purchasing group licences. However, because SEA claims can be made for the acquisition of specialized technology only for individual students, the board was not able to take advantage of these opportunities to reduce costs.

Effectiveness of Specialized Technology

The purpose of providing students with specialized equipment is to help improve their academic progress. However, the Ministry does not require school boards to assess, and the boards we audited were not assessing, whether the equipment purchased was helping the student. Items purchased may not achieve their purpose for a number of reasons, such as poor design or inadequate training in their use. Information on the extent to which equipment is achieving its purpose would help boards determine whether to switch to other products, improve training, or discontinue purchasing certain types of equipment.

RECOMMENDATION 13

To help ensure that specialized equipment purchased for students is provided to them within a reasonable time, meets their needs, and is aquired economically, the Ministry of Education should:

- **include a service expectation in its guidelines for Special Equipment Amount claims, and require school boards to ensure that their processes achieve this expectation, with respect to the time between the date a professional recommends that a student be provided with specialized equipment and the date it is ready for use by the student;**
- **assess the level of savings that might be available from the purchase of group licences for computer software; and**
- **require that boards assess the effectiveness of the equipment that they purchase.**

MINISTRY RESPONSE

The Ministry will continue to work with school boards to optimize the use and timely acquisition of assistive equipment.

OTHER MATTER

Funding for special education includes the Special Incidence Portion (SIP) grant, which is a claims-based grant. School boards may submit claims to the Ministry for up to $27,000 per student for students who require more than two full-time staff to address their health and/or safety needs. The Ministry paid over $13 million and $12 million in SIP grants to school boards in the 2005/06 and 2006/07 school years respectively.

The Ministry includes each board's estimated SIP claims in its annual grants to school boards. The intention is that actual claims will be reconciled to the estimated claims and that the following year's grant will be adjusted for any differences. However, the Ministry had not yet completed the reconciliation for one of the boards we audited. As a result, the Ministry did not detect errors in its claims processing. This led to an underpayment of $575,000 for the 2005/06 school year and an overpayment of $2.1 million for 2006/07.

RECOMMENDATION 14

To ensure that Special Incidence Portion grants are correctly calculated, the Ministry should reconcile the funding provided to each board's actual claims annually.

MINISTRY RESPONSE

The Ministry has an annual reconciliation process. The Ministry will review its reconciliation process, including more timely adjustments after reconciliation.

Chapter 4

Follow-up on 2006 Value-for-money Audits

It is our practice to make specific recommendations in our value-for-money (VFM) audit reports and ask ministries, agencies, and organizations in the broader public sector to provide a written response to each recommendation, which we include when we publish these audit reports in Chapter 3 of our Annual Report. Two years after we publish the recommendations and related responses, we follow up on the status of actions taken by management with respect to our recommendations.

Chapter 4 provides some background on the value-for-money audits reported on in Chapter 3 of our *2006 Annual Report* and describes the current status of action that has been taken to address our recommendations since that time as reported by management.

For over 90% of the recommendations we made in 2006, management has indicated that progress is being made toward implementing our recommendations, with substantial progress reported for over half.

Our follow-up work consists primarily of inquiries and discussions with management and review of selected supporting documentation. In a few cases, the organization's internal auditors also assisted with this work. This is not an audit, and accordingly, we cannot provide a high level of assurance that the corrective actions described have been implemented effectively. The corrective actions taken or planned will be more fully examined and reported on in future audits and may impact our assessment of when future audits should be considered.

4.01—CHILD WELFARE SERVICES PROGRAM AND 4.02—CHILDREN'S AID SOCIETIES

You will not find the results of our follow-up work for sections 4.01 and 4.02 in this volume as they were published separately earlier this year. Specifically, at the request of the Minister of Children and Youth Services, we conducted our follow-up on these two sections of our *2006 Annual Report* after one year instead of the customary two years, and released the results of our follow-up as a Special Report on January 29, 2008.

A brief overview of the results of our follow-up work is included in Chapter 1. The complete text of our special report, *Follow-up of 2006 Audits of the Child Welfare Services Program and Four Children's Aid Societies* is available at **www.auditor.on.ca**.

Chapter 4

Section

4.03 Community Colleges—Acquisition of Goods and Services

Follow-up on VFM Section 3.03, *2006 Annual Report*

Background

Ontario's 24 community colleges offer students a comprehensive program of career-oriented, post-secondary education and training. Enrolment data from the Ministry of Training, Colleges and Universities (Ministry) indicate that there were 185,722 full- and part-time students enrolled in community colleges in 2007 (215,000 in 2005). Colleges spent a total of $2.6 billion in 2007 ($2.3 billion in 2005), of which $797 million was spent in areas covered by our 2006 audit ($751 million was spent in 2005). Our 2006 audit of purchasing policies and procedures at selected colleges focused on a broad range of expenditures but did not include employee compensation, student assistance, ancillary operations, or the costs of acquiring college facilities.

In our *2006 Annual Report*, we found that the purchasing policies at the four colleges we audited (Conestoga, Confederation, George Brown, and Mohawk) were adequate to ensure that goods and services were acquired economically and were generally being followed. In addition, all of the colleges we audited were participating in purchasing consortia in order to reduce costs. However, areas where procedures could be strengthened included the following:

- Some major contracts with suppliers had not been re-tendered for a number of years. Therefore, other suppliers did not have an opportunity to bid on these public-sector contracts, and colleges might not have known whether the goods or services could be obtained at a better price.
- Where non-purchasing personnel managed the purchasing process, policies and procedures were not always followed, increasing the risk that the goods or services purchased did not represent the best value.
- Before making major purchases, colleges did not always clearly define their needs and objectives and therefore could not ensure that the purchases met their needs in the most cost-effective manner.
- For large purchases, the colleges normally established committees to evaluate competing bids. However, they had not developed procedures for committee members to follow, such as identifying the evaluation criteria for the non-monetary aspects of bids (to ensure they were appropriate and consistent). As a

result, colleges could not be assured that all committee members ranked bids in the same manner.

- Policies governing gifts, donations, meals, and hospitality were neither clear nor consistently enforced. While the individual amounts were not significant, we noted several examples of gifts purchased for staff, including, at one college, five gift cards worth $500 each.

We made recommendations for improvement in these areas and received commitments from the colleges that they would take action to address our concerns.

Current Status of Recommendations

We relied primarily on information collected and work done by the Ministry's Internal Audit Services, who visited the four colleges to assess their progress in addressing our recommendations. Based on their work, they concluded that significant progress had been made in addressing almost all of our recommendations. Three of the four colleges had revised their policies; the fourth college was in the process of doing so and, in the interim, had followed our recommendations with respect to the purchases it made during the 2007/08 fiscal year.

COMPETITIVE ACQUISITION PRACTICES

Recommendation 1

To help ensure that the prices paid for major purchases are competitive, as well as to give all potential suppliers a fair opportunity to obtain college business, colleges should limit the number of years they use the same supplier without re-tendering.

To help ensure that purchases comply with college policies, colleges should require that purchasing departments oversee major purchases made by other departments at the college.

Current Status

At the time of their follow-up, the Ministry's Internal Audit Services found that all four colleges had implemented this recommendation. For purchases made during the 2007/08 fiscal year, the four colleges implemented limits on the number of years the same supplier could be used without re-tendering. This ranged from three years—with a possible two-year extension—to seven years. One of the colleges maintained a schedule of multi-year contracts to track due dates and ensure that contracts are re-tendered on a timely basis.

At all four colleges, the purchasing department oversaw major purchases made by other departments. The purchasing departments were involved throughout the process—from the purchase requisition to the completion of the purchase order—and they ensured compliance with their respective college's purchasing policies. All purchasing documentation was maintained by the purchasing departments.

NEEDS IDENTIFICATION

Recommendation 2

To help ensure that objectives are achieved at the lowest cost, colleges should specifically identify and define their needs before making significant purchases.

Current Status

The Ministry's Internal Audit Services found that the four colleges had implemented this recommendation and revised their purchasing policies accordingly. One of the colleges had developed a needs-assessment form that departments were required to complete and have approved before starting the procurement process.

EVALUATION OF BIDS

Recommendation 3

To help ensure that the best proposals are selected when major purchases are planned, colleges should:

- *develop procedures for evaluation committees, including a requirement that they identify the* *criteria to be used to evaluate the non-monetary aspects of proposals; and*

- *require that the price summary be checked by someone other than the person who prepared it.*

Current Status

The Ministry's Internal Audit Services noted that all four colleges required that the criteria to be used in evaluating the non-monetary aspects of proposals be developed before the start of the request-for-proposal (RFP) or tender process. The criteria used varied according to the nature of the product or service, but included such things as company profile, innovation, automation, and references. The criteria were weighted according to their relative importance. Internal Audit Services told us that they tested a sample of proposals at the four colleges and found that, in each case, the contract was awarded to the vendor whose proposal had the highest score.

All four colleges required that price summaries be prepared for major purchases and had revised their purchasing policies to include having summaries checked by someone other than the preparer. However, at three of the four colleges, there was no evidence that this check was actually being performed. Internal Audit Services made a further recommendation in this regard.

EMPLOYEE EXPENSES

Recommendation 4

To help ensure that college funds are used appropriately and to the benefit of colleges and their students, colleges should implement clear policies for gifts, donations, and meal and hospitality expenses.

Current Status

The Ministry's Internal Audit Services found that, at the time of its visit, one college had recently implemented a new policy covering travel and other eligible business expenses, including gifts, donations, and hospitality expenses. The other three colleges were in various stages of revising and implementing their policies regarding these expenditures.

Chapter 4
Section
4.04

Ministry of Natural Resources

Forest Fire Management

Follow-up on VFM Section 3.04, *2006 Annual Report*

Background

The primary responsibility of the Public Safety and Emergency Response Program of the Ministry of Natural Resources (Ministry) is to detect and suppress forest fires on 90 million hectares of Crown land in Ontario and manage the government's aircraft fleet used for forest fire fighting, natural resource management, and passenger transportation for all government ministries.

The number and intensity of fires can fluctuate significantly from year to year, and therefore most program costs are variable in nature. They relate primarily to contracted staff and other expenditures to fight forest fires. In the 2007/08 fiscal year, expenditures of this nature amounted to $95.1 million ($66.8 million in 2005/06). Remaining program expenditures for the 2007/08 fiscal year were fixed costs for full-time staff and infrastructure expenditures, and amounted to $39.9 million ($36.6 million in 2005/06). Thus, in total, 2007/08 program expenditures were $135 million ($103.4 million in 2005/06).

The Ministry is also responsible for managing provincial obligations relating to six other types of hazards: floods; drought/low water; dam failures; erosion; soil and bedrock instability; and emergencies related to crude oil and natural gas production/storage and salt-solution mining.

Our audit in 2006 found that once forest fires were detected, the Ministry had a good track record of effectively suppressing them. However, the Ministry did not have measures for assessing the effectiveness of its procedures for detecting forest fires and, consequently, could not demonstrate that its fire-detection performance was adequate. In addition, although the Ministry had implemented a number of good initiatives to help prevent forest fires, a comprehensive strategy for fire prevention would help focus efforts in this area. Our more significant observations were as follows:

- In the previous five years, the Ministry reported that once a fire was detected, it substantially achieved a 96% success rate in suppressing the fire by noon the next day or limiting its extent. However, fire-suppression costs were still significant when fires were not detected early. We noted two other Canadian jurisdictions that detected two-thirds of fires early through planned methods, in contrast to Ontario, which detected only one-third of all fires through its proactive efforts.
- In 2005, one region noted a significant number of fires caused by railways, and regional staff had directly observed railway workers failing to comply with required practices for fire prevention. This company had caused 36 fires in the 2005 calendar year that cost the Ministry over $1 million for fire suppression.

- Based on an innovative simulation modelling exercise, the Ministry had implemented a program, beginning in 1999, to reduce firefighting costs by better utilizing its resources and optimizing the number of seasonal firefighters and contracted helicopters. Up to the 2005 fire season, the Ministry estimated that this program had achieved savings of over $23 million. A recent external review had also concluded that the Ministry's aviation fleet was well suited to its requirements and recommended that the government retain the existing aviation delivery model.
- The Ministry had negotiated a favourable price for aviation fuel purchases from two suppliers at various locations throughout the province. However, we found that the Ministry had often paid more than the negotiated price for aviation fuel, and was unable to verify whether the $4.7 million it had paid for aviation fuel in the 2005/06 fiscal year had been billed correctly.
- The Ministry was assigned responsibility for developing a plan for emergency management of a number of potential hazards, including failed dams and abandoned oil and natural gas wells. The Ministry had found that over 300 dams were high-risk and, if breached, could cause extensive damage. It had also estimated that there could be as many as 50,000 abandoned natural gas and crude oil wells in the province, many of which posed a range of threats, including the build-up of explosive gas or groundwater contamination. Plans for dealing with these threats were being developed but more comprehensive planning was required.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

Current Status of Recommendations

According to information received from the Ministry, progress had been made in implementing most of our recommendations, with significant progress having been made on several of them. For example, the Ministry had implemented a new fire-detection evaluation process and improved fire investigation and training procedures. More work is still required, however, on several other recommendations, such as implementing a forest fire compliance and prevention strategy, and tracking the cost of aircraft maintenance by individual aircraft.

The current status of action taken on each of the recommendations is described in the following sections.

FOREST FIRE MANAGEMENT

Forest Fire Prediction and Detection

Recommendation 1

To help reduce the cost of fire suppression as well as to achieve its objectives of preventing personal injury, economic loss, and social disruption, the Ministry of Natural Resources should:

- *formally assess its fire prediction results in order to help refine its prediction model and determine areas for improvement;*
- *consider adopting forest fire detection standards and performance targets;*
- *analyze the reasons for any trends in its fire detection capabilities; and*
- *report on its success in predicting and detecting forest fires.*

Current Status

We were informed by the Ministry that a new fire-prediction evaluation process was implemented during the 2008 fire season. Fire predictions are made each day and, for each five-day period, the number of predicted and actual fires was documented and compared daily at the Ministry's Emergency Operation Centre. A season-end report that summarizes the accuracy of the fire prediction process is to be compiled.

In March 2008, a ministry research project resulted in the development of a new model for establishing wildfire-detection performance targets. Data collected in 2008 is to be used to assess and refine the model.

The Ministry indicated that it will report on trends in fire-detection capabilities once the evaluation of the fire-detection standards and performance targets is complete.

Forest Fire Response

Recommendation 2

To help enhance the information available relating to fire response and suppression and thereby help the Ministry of Natural Resources improve its capabilities in these areas, the Ministry should:

- *monitor the fire-assessment reports to ensure they are completed when required and that all necessary information is documented; and*
- *develop a method to capture and summarize relevant information from fire-assessment reports and update guidelines to enable meaningful reporting on the sustained-action and response-times performance measures.*

Current Status

The Ministry reported at the time of our follow-up that procedures for preparing a fire assessment report (FAR) had been added to its Incident Management Team Guidelines. The guidelines specify when a FAR report is required, such as when a fire takes place under unusual circumstances or when it causes serious damage. We were informed that for 2007, there were 28 FARs conducted, and the Ministry noted that improvements were evident in the collected information on the fire responses, firefighting costs, and impact of fires.

With respect to capturing and summarizing relevant information from FARs, the Ministry indicated that FAR reports were being prepared electronically and would soon be available on a new intranet site. This will permit the sharing of FARs reports with staff.

Performance Measures for Forest Areas Burned

Recommendation 3

To help achieve its objectives of protecting valuable wood supplies and utilizing fire's beneficial effects in resource management, the Ministry of Natural Resources should:

- *develop processes for identifying areas where fire is necessary for hazard reduction and ecological renewal; and*
- *complete the required plans for fire management for the eight of 11 parks that do not have such plans in place.*

Current Status

The Ministry reported that in May 2006, new guidelines were issued to help resource managers and fire response personnel identify and finalize the selection of sites for which hazard reduction or ecological objectives could be achieved with managed fires.

We were also told that the use of prescribed fires that are deliberately set by the Ministry to promote ecosystem renewal had been suspended. This decision followed a May 2007 incident in which the program staff were unable to contain a prescribed fire within its intended burn area, which caused unexpected disruption to local businesses and residents. The Ministry told us that it has established a new policy for ensuring that it would be able to contain any future prescribed fires and was in the process of implementing recommendations from a provincial-level review conducted by ministry staff stemming from the incident.

The Ministry informed us that, during 2008, new guidelines and a planning manual would be created for fire management in provincial parks and conservation reserves. The Ministry was also working with Ontario Parks staff to prioritize fire-management planning requirements and activities for parks. We were informed that as of June 2008, one existing fire-management plan was being rewritten, and work had begun on plans for four other parks. However, a timetable to complete fire-management plans for the remaining parks had not yet been established.

Fire Investigations and Reviews

Recommendation 4

To improve its techniques of fire investigation, help identify recurring causes of fire, assist in fire prevention efforts, and provide a deterrent, the Ministry of Natural Resources should:

- *take action to resolve any training, documentation, or evidence-gathering weaknesses already identified in the process of fire investigation; and*
- *clearly define the criteria for determining when a fire review at the provincial level is necessary and develop guidelines for the form and content of fire reviews at both provincial and regional levels.*

Current Status

The Ministry informed us that it had taken a number of steps to improve training, documentation, and evidence-gathering in fire investigation activities. For example:

- current information was shared electronically among advanced fire investigators, and information and investigation forms related to fire investigation had been updated on the Ministry's intranet site; and
- fire investigation training has been updated for crew leaders, a five-day advanced fire investigation course was given to 35 candidates in April 2008, and a one-day annual refresher workshop was being developed for Initial Attack Incident Commanders to ensure that fire investigation skills would be kept current.

The Ministry informed us that the policy regarding the need for fire reviews was revised in October 2007. The updated policy requires a review of all fires responded to by the Ministry, and the level of review is based on the characteristics of a fire. For example, a "provincial-level review" is required for severe fires that are deemed contentious, caused significant damage, or cost a large amount to control. We were informed that a provincial-level review under the new policy was conducted for the May 2007 prescribed fire (previously noted) that the program staff were unable to contain within the intended burn area.

Forest Fire Prevention

Recommendation 5

To help prevent forest fires and ensure appropriate action is taken when fires are caused by human carelessness or repeat offenders, the Ministry of Natural Resources should implement an overall strategy for forest fire prevention that includes:

- *a specific prevention and compliance strategy for each major type of forest fire caused by humans;*
- *an estimate of the potential costs and benefits of the proposed initiatives to address each type of forest fire caused by humans as well as performance targets for each initiative; and*
- *mechanisms to report on the achievement of results.*

Current Status

In March 2008, the Ministry prepared a draft research study on the causes and frequency of fires caused by people. However, we understand the Ministry was still studying the issue and had not yet decided on a new prevention and compliance strategy. We were informed that until then, the existing provincial and regional fire compliance strategies, such as education and awareness programs, would be used as the basis for initiatives involving fire prevention.

Firefighter Training and Safety

Recommendation 6

To help improve the training of its firefighters and further develop its worker safety initiatives and reporting, the Ministry of Natural Resources should:

- *enhance the usefulness of its safety reports by analyzing trends in firefighter injuries in relation to the number and severity of forest fires and number of firefighter days worked; and*
- *address the identified need for an evaluation methodology to help improve the effectiveness of its training courses for firefighters.*

Current Status

The Ministry informed us that its annual Forest Fire Management Safety Report was enhanced in 2007 by adding lost-time injury rates, injury severity rates, and injury frequency rates. Eight previous years of safety data were included in this report. In addition, the Ministry reported that it had canvassed other provinces and territories for lost-time injury statistics; however, useful comparisons were difficult to make because there were differences in data collection. The Ministry's safety working group has recommended that the association representing Canadian firefighting jurisdictions examine the feasibility of a common method of collecting and reporting data on lost-time injuries.

The Ministry informed us that a new assessment model for planning, developing, and administering firefighter training and testing had been developed and was in use for training programs delivered in 2008.

Fire Management Costs, Revenue, and Inventory

Recommendation 7

To help ensure that forest fire management is operated in the most economical manner, the Ministry of Natural Resources should:

- *review the costs and benefits of formally continuing with its cost-management program and reporting annually on the achievement of any cost-saving initiatives;*
- *establish a shorter timeframe for invoicing costs for fire suppression and assess the merits of alternative courses of action to help improve the collection of outstanding invoices; and*
- *dispose of obsolete inventory on a timely basis.*

Current Status

The Ministry informed us that, in March 2007, a new policy was established that formally continues the cost-management program referred to as "Total Cost Management." It indicated that the principles and concepts of the program are part of an organizational culture that strives to operate forest fire management at the required level of protection described in the Forest Fire Management Strategy for Ontario at the least total cost to the government. No reporting has been established for this program; however, any initiatives for increasing efficiencies and reducing costs are to be reported as part of the annual business-planning process and a new branch-wide report card that would be available to staff in 2009.

Our discussions with the Ministry did not identify any substantial changes made by the Ministry to improve invoicing and collection of fire-suppression costs.

The Ministry told us that increased efforts and staff additions had been made to manage inventory better, and that inventory was being reviewed regularly and redundant and obsolete items disposed of.

AVIATION SERVICES

Aviation Services Costs

Recommendation 8

To help improve its operational efficiency and deliver aviation services in the most cost-effective manner, the Ministry of Natural Resources should:

- *dispose of unused aircraft through sale or trade;*
- *track cost of maintenance downtime, engineering, and parts by individual aircraft to help*

objectively determine fleet-replacement requirements; and

- *implement procedures to ensure it pays the negotiated price for aviation fuel.*

Current Status

The Ministry informed us that its four unused aircraft were either traded in or sold, thus permitting upgrades of other aircraft from the proceeds.

The Ministry was still investigating upgrades for its information system to allow for automated tracking of maintenance hours and parts costs for each aircraft. We were informed that in the interim, a manual process had been adopted to track the time spent by aircraft maintenance staff on each aircraft.

The Ministry told us that, although it had established processes for verifying fuel invoices, it often had difficulty obtaining the necessary invoice details from its large suppliers. One supplier had agreed to provide detailed invoices, which allow for periodic checks of fuel prices; the other supplier would not provide detailed invoices, but its contract with the Ministry has since expired. After a recent unsuccessful tender to replace this supplier, most fuel purchases are no longer covered by a price agreement.

Aviation Safety Inspections and Audits

Recommendation 9

To ensure that all commercial aircraft contractors meet and continue to meet provincial requirements for aviation safety, the Ministry of Natural Resources should:

- *implement record retention policies for documentation related to commercial carrier inspections, audits, and information updates;*
- *outline circumstances that require commercial carriers to submit information regarding significant changes to their operations; and*
- *consider a risk-based program of periodic contractor safety inspections.*

Current Status

The Ministry reported that it had developed a draft policy, for implementation by the end of 2008, that addressed the requirements for documentation of commercial carrier inspections, audits, and information updates. The Ministry planned to notify current eligible carriers of the new policy when it was final. In addition, the capacity to store and access this information on-line was being developed.

The Ministry informed us that by the end of the 2008/09 fiscal year, it would begin testing a risk-based approach to determining which commercial carriers warranted a safety inspection.

Emergency Management

Recommendation 10

To ensure that its legislative responsibilities for emergency management are being fulfilled and to protect people, property, and the environment from the natural and human-caused hazards for which it has been assigned responsibility, the Ministry of Natural Resources should:

- *work with Emergency Management Ontario to complete the required enhanced and comprehensive levels of emergency planning; and*
- *develop a comprehensive emergency-simulation program to test the effectiveness of various components of its emergency plans.*

Current Status

The Ministry told us that it was committed to developing a "fully comprehensive" level of its emergency management program by March of 2010. The Ministry had been consulting with Emergency Management Ontario to finalize the program. A five-year action plan has also been developed that includes an emergency simulation exercise.

Chapter 4

Section

4.05 Hospitals—Administration of Medical Equipment

Follow-up on VFM Section 3.05, *2006 Annual Report*

Background

Ontario has more than 150 public hospital corporations, each responsible for determining its own priorities to address patient needs in the communities it serves. In the 2007/08 fiscal year, the total operating cost of Ontario's hospitals was $20 billion; in the 2005/06 fiscal year, these total operating costs were about $17.5 billion, with provincial funding accounting for about 85% of total hospital funding. These figures exclude the cost of most physician services provided to hospital patients, because the Ministry of Health and Long-Term Care pays for these services through the Ontario Health Insurance Plan.

Hospitals operate a large variety of medical equipment required to meet patient needs—everything from relatively inexpensive vital-signs monitors to complex magnetic resonance imaging (MRI) machines costing millions of dollars. The acquisition, maintenance, and repair of such equipment is essential to provide quality patient care in hospitals. While overall expenditures by Ontario hospitals on medical equipment were not readily available, the three hospitals in which we conducted work (Grand River, Mount Sinai, and Thunder Bay Regional Health Sciences Centre) spent a total of $20 million to acquire medical equipment in the 2005 calendar year.

In our *2006 Annual Report*, we found that, while some areas were being well managed, procedures in other areas were inadequate to ensure that medical equipment was acquired and maintained in a cost-effective manner. For instance:

- Two of the three hospitals we visited did not use multi-year strategic plans to determine and prioritize medical equipment needs. While all three did have a prioritization process for annual equipment requests, most of the purchases we sampled at one hospital were made outside this process, because acquisitions using funds from sources such as the hospital's foundation did not need to go through the regular prioritization process.
- Hospitals did not consider certain relevant criteria in assessing proposed medical equipment purchases. For example, one hospital purchased laboratory equipment for $534,000 without a documented assessment supporting the need for this equipment.
- The majority of the medical equipment acquisitions we reviewed were made without competitive selection. Hospitals indicated that this was due primarily to the standardization of medical equipment. While we recognize the benefits of standardizing certain types of

medical equipment (for example, to ensure compatibility with other hospital devices), we found that none of the hospitals had guidelines on what medical equipment should be standardized and therefore be exempt from competitive purchasing practices.

- One of the hospitals purchased its equipment through a buying group, which we expected would result in lower prices. However, none of the items that we sampled, including a computed tomography (CT) machine costing more than $1.1 million, was purchased by the buying group using an open, competitive process. Given the specialized nature of certain medical equipment purchases, we were unable to assess whether hospitals or the buying group could have acquired equipment that met their patients' needs at a lower price, had they followed a competitive selection process.
- All three hospitals relied on equipment vendors to maintain their MRIs and CTs. We noted that the extent of maintenance varied, and was often less frequent than the standards set by the College of Physicians and Surgeons of Ontario for MRIs and CTs located in independent health facilities. We also noted that MRIs and CTs were not always subject to normal quality-assurance procedures to ensure that they were operating properly.
- Medical equipment was often not maintained as frequently as required by service manuals or hospital plans. For example, 75% of defibrillators at one hospital did not receive scheduled maintenance during 2005, and some had no maintenance at all during that year.

We made a number of recommendations for improvement, and received commitments from the hospitals and the Ministry that they would take action to address our concerns.

Current Status of Recommendations

In spring and summer 2008, the hospitals, as well as the Ministry of Health and Long-Term Care, where applicable, provided us with information on the current status of our *2006 Annual Report* recommendations. According to this information, all of the hospitals had taken action to address some of our recommendations, and were in the process of implementing most of the others. The status of the action taken on each of our recommendations at the time of our follow-up is as follows.

PRIORITIZING MEDICAL EQUIPMENT ACQUISITIONS

Recommendation 1

To ensure that decision-makers have adequate information to prioritize medical equipment purchases to maximize the value to patient care, hospitals should:

- *conduct multi-year equipment needs assessments and document the application of formal prioritization criteria for requesting and approving equipment purchases; and*
- *minimize exclusions from the hospital-wide prioritization-and-approval process and, where equipment is purchased outside this process, require appropriate approvals and documentation to support the reasons for the exclusion.*

Current Status

One hospital indicated that it has implemented a two-year capital-needs-assessment process. Another hospital indicated that it had implemented and was further refining a new three-year capital budgeting process, which included medical equipment. The third hospital noted that it is continuing to conduct multi-year medical-equipment-needs assessments. All the hospitals stated that they are now using formal prioritization criteria for requesting and approving equipment purchases.

With respect to minimizing exclusions from the hospital-wide prioritization-and-approval process for medical equipment, we were advised of the following:

- One hospital indicated that it has revised its policy, and now requires the capital budget to incorporate all equipment requests, including third-party-funded items. As well, its rationale for requests and purchases required to be made outside of the capital budget process, such as emergency purchases, must be documented and retained.
- Another hospital noted that it had formalized a policy requiring that all requests for medical equipment, regardless of funding source, go through its capital-planning process. Equipment purchased outside this process required approval and documentation of the reason for the emergency purchases or other exceptions, such as financial donations received after the annual capital-planning cycle. As well, this hospital indicated that in February 2008, it had implemented a policy requiring Board approval of all capital expenditure requisitions exceeding $2 million.
- The third hospital indicated that it was developing a revised policy to better minimize exclusions from its hospital-wide prioritization and approval process for medical equipment acquisitions.

ACQUISITION OF MEDICAL EQUIPMENT

Justification of Need for Medical Equipment

Recommendation 2

To better manage resources, hospitals should, before purchasing medical equipment—especially new state-of-the-art equipment—consider:

- *all relevant costs;*
- *patient needs;*
- *the proven capabilities of the new technology;*
- *adequate performance agreements to protect the hospital when the decision is made to acquire unproven technology; and*
- *in conjunction with their Local Health Integration Network (LHIN), whether sufficient access to the equipment is already otherwise available to patients in the region.*

Current Status

At the time of our follow-up, all the hospitals had implemented capital equipment request-for-acquisition forms that required documentation of the costs as well as the clinical justification for medical equipment acquisitions. In addition, one hospital required specific departmental approvals to acquire certain types of medical equipment, such as equipment used for research. However, when the decision is made to acquire unproven technology, none of the hospitals' policies specifically addressed the proven capabilities of new technology or the use of performance agreements to protect the hospitals.

All three hospitals indicated that they were working, at least to some extent, in conjunction with their LHIN regarding patient access to diagnostic imaging equipment in their regions. For example, one hospital indicated that it submits reports on diagnostic imaging utilization to its LHIN, to assist it with optimizing system access. Another hospital stated that it contacts other hospitals within two LHINs when considering capital purchases over $1 million.

The Ministry indicated that it, in conjunction with the LHINs, has introduced a new draft protocol to determine where to locate new MRI and CT machines in order to meet local population needs. This protocol requires hospitals requesting new MRI or CT machines to submit a proposal to their LHIN and the Ministry; this proposal is to include, among other information, the number and location of the hospitals' MRI and CT machines as well as other machines located in facilities in the surrounding area. The Ministry indicated that hospitals started using this protocol in fall 2007.

Acquisition Process

Competitive Selection of Vendors, Requests for Information, Sole-sourced Purchases, and Buying Groups

Recommendation 3

To ensure that medical equipment is being purchased as cost-effectively as possible, and to meet hospital-specific needs, hospitals or their buying groups should commit to establishing and ensuring compliance with competitive acquisition procedures, including:

- *requirements regarding the use of public requests for proposals for medical equipment purchases above a certain amount;*
- *criteria for equipment standardization versus an open competitive process; and*
- *requirements on when and how requests for information to determine vendors with available equipment that meets the hospital's needs are to be used.*

To help ensure that hospitals participating in co-operative purchasing arrangements for medical equipment are achieving savings, hospitals should formally monitor the co-operative arrangement's success in acquiring medical equipment.

Current Status

One hospital had implemented a policy in December 2007 requiring a public request for proposal to be issued for all acquisitions over $100,000 unless the item was sourced from a single vendor, in which case documentation must be provided to support the vendor's status as the sole provider. Another hospital had formalized a policy in April 2008 outlining specific dollar thresholds for competitive-acquisition procedures, including exceptions for emergency, sole-sourcing, and standardized equipment purchases. The third hospital also approved a new policy in April 2008, which included the use of competitive acquisition procedures "depending on the request and the value of the equipment." However, this third hospital had not assigned specific dollar values.

None of the hospitals had developed specific criteria or guidelines for standardizing equipment (that is, purchasing certain types of equipment from only one manufacturer) versus using an open competitive process. However, one hospital had, at least to some extent, defined when and how requests for information were to be used to determine vendors with available equipment that meets the hospital's needs, while another hospital had implemented a more detailed policy on when requests for information from interested vendors should be used.

With respect to formally monitoring co-operative purchasing arrangements for medical equipment to ensure that hospitals are achieving savings, the Ministry indicated that the Council of Academic Hospitals of Ontario (CAHO), with funding from the Ministry of Finance's OntarioBuys program, is piloting a two-year group-purchasing initiative for capital-equipment purchases, including certain medical equipment. Two of the hospitals indicated that they were participating in this initiative. The objective of the CAHO pilot is to provide an open, fair, and transparent process through the use of common procurement guidelines, a shared code of ethics and a standardized request for proposal process. The Ministry further noted that it will formally follow up on the pilot's success in achieving savings, and expects a final report in January 2010.

One of the two hospitals participating in the CAHO pilot indicated that its supply chain service provider/buying group is currently working on formalizing procurement policies and procedures that are to apply to all member hospitals. These policies and procedures are to include sole-sourcing certification, bid thresholds and tendering procedures.

The other hospital participating in the CAHO pilot noted that its buying group was exploring opportunities for group pricing for selected capital equipment. As well, this hospital stated that it continues to participate in capital procurement initiatives co-ordinated by the Ministry, such as purchases for CTs and MRIs.

Leasing Versus Buying

Recommendation 4

To help ensure that major pieces of medical equipment are acquired in the most economical manner, hospitals should formally assess all acquisition options, including leasing.

Current Status

One hospital implemented a policy indicating that all available financing and leasing options should be considered for all major capital equipment additions costing more than $1 million. Another hospital indicated that it periodically evaluates leasing options, but believes that purchasing medical equipment outright is the less costly alternative, and therefore does not consider it practical to formally assess leasing options for all acquisitions. Similarly, the third hospital indicated that although it has revised its acquisition policy to also consider leasing options, most pieces of equipment are purchased outright to minimize financing costs.

MAINTENANCE AND REPAIRS OF MEDICAL EQUIPMENT

Service Options

Recommendation 5

For significant pieces or classes of medical equipment, hospitals should formally assess:

- *whether or not the capability to cost-effectively service and maintain the equipment exists in-house; and*
- *what third-party service options are available to meet the hospital's needs in the most economical fashion.*

Current Status

One hospital implemented a policy requiring the investigation of potential savings opportunities related to service and maintenance contracts for all major capital equipment acquisitions. In addition, this hospital noted that it planned to discuss this issue with its Local Health Integration Network (LHIN) in summer 2008, as it believed that economies of scale for in-house service and maintenance contracts could be assessed more efficiently at the LHIN level. Another hospital indicated that service contracts are tendered as part of its capital purchase process to ensure the best value is obtained. This hospital noted that it had also revised its capital equipment purchasing policy to require, as part of its review of vendors' proposals, a comparison of the cost and timeliness of in-house versus third-party servicing. The third hospital indicated that in the 2006/07 fiscal year, it had implemented a sign-off on its capital acquisition forms to indicate that the service options for all medical capital expenditures had been evaluated to ensure the most economical option was selected prior to procurement. Furthermore, this third hospital solicited service support options for diagnostic imaging equipment through the request for proposal process, and evaluated these options prior to procurement.

Conduct of Maintenance and Repairs

Recommendation 6

To ensure that medical equipment operates properly, hospitals should:

- *perform preventive and functional maintenance according to manufacturer's or other established specifications and monitor such maintenance to ensure that it is being completed; and*
- *track downtime and other out-of-service time for major medical equipment and use this information to determine the impact on patient care and costs, and to assess whether operating performance uptime guarantees have been breached.*

Current Status

With respect to preventive and functional maintenance, we were advised of the following:

- One hospital indicated that in September 2006, it had implemented a database to manage and monitor the scheduling and completion of both in-house and vendors' maintenance. As well, the hospital indicated that it was implementing an initiative to ensure the integrity of the information entered in this database.

- Another hospital stated that it had completed an analysis of its equipment maintenance needs and brought its database up to date, including the timing of preventive maintenance. In addition, the hospital indicated that it was monitoring maintenance completed versus maintenance scheduled, and had implemented a plan to improve its performance.
- The third hospital noted that it had reviewed existing service contracts to ensure that these contracts complied with manufacturers' standards. As well, this hospital indicated it now maintained a paper trail of all preventive maintenance and service records for the equipment in its diagnostic imaging department. However, the hospital commented that it still needed to formalize its processes to monitor the completion of maintenance for its minor equipment.

With respect to downtime and other out-of-service time for medical equipment, at the time of our follow-up, we were advised of the following:

- One hospital indicated that it is maintaining manual equipment-maintenance records, which flag downtime, and that it reviews these records for compliance with uptime guarantees. This hospital noted that it is reviewing software options that would enable the electronic tracking of medical equipment maintenance and downtime.
- Another hospital stated that while it has the ability to obtain ad hoc uptime reports on major diagnostic equipment from vendors, this has not been its regular practice. This same hospital noted that, should numerous problems occur, its management and technicians would be aware of them. However, the hospital added that its diagnostic imaging department is considering tracking downtime as a performance indicator, which would highlight significant equipment issues.
- The third hospital informed us that it has established monthly meetings with its vendors, who track downtime for its major medical equipment such as MRIs and CTs, to discuss any ongoing service issues. However, this hospital indicated that it no longer has uptime guarantees with its equipment vendors.

Tracking of Medical Equipment

Recommendation 7

To assist in better managing medical equipment needs and identifying equipment for maintenance, hospitals should ensure that medical equipment inventory listings contain complete and up-to-date information on the acquisition, maintenance, and disposal of medical equipment.

Current Status

At the time of our follow-up, one hospital indicated that it had implemented a medical equipment database to track medical equipment, including information on the acquisition, maintenance, and disposal of equipment. Another hospital indicated that it had updated its equipment listings and was considering options to verify the accuracy of these listings, including a possible hospital-wide equipment count. In addition, this same hospital said it had enhanced its disposal process for fixed assets, including medical equipment. The third hospital noted that while it had not yet addressed this recommendation, it had started an informal process to identify asset management software packages to help track equipment, with a view to installing the system by spring 2009.

OTHER MATTER

Conflict-of-Interest Declarations

Recommendation 8

To help ensure that medical equipment is acquired at the best price and to avoid potential conflicts of interest, hospitals should:

- *require that all board members as well as individuals participating in, or having influence over, the purchasing process complete annual conflict-of-interest declarations that include actual and potential conflicts, and should require vendors to complete a conflict-of-interest declaration as part of the acquisition process; and*
- *provide guidance on what constitutes a conflict, to whom conflict-of-interest declarations should be provided, and the consequences of not declaring potential or actual conflicts of interest.*

Current Status

At the time of our follow-up, two of the hospitals had detailed conflict-of-interest declarations in place, requiring individuals to disclose actual or potential conflict-of-interest situations. As well, one of these two hospitals required all board members as well as anyone having influence over any purchasing process to complete an annual conflict-of-interest declaration. The third hospital indicated that it requires board members and others participating in an equipment procurement process to declare actual and potential conflict situations as they arise.

One of the hospitals has implemented a policy requiring vendors to declare any conflicts of interest. Another hospital indicated that it requires vendors that respond to a request for proposal to declare conflicts of interest; it is not, however, considering obtaining vendor conflict-of-interest declarations where equipment is acquired without using a request for proposal, as this would only occur if the equipment was standardized, or there were no competitive alternatives. The third hospital indicated that vendors are not required to complete written conflict-of-interest declarations, but are required to disclose any financial or other support made to specific hospital departments or staff.

Two of the hospitals now have policies in place which provide guidance on what constitutes a conflict, to whom conflict-of-interest declarations should be provided, and the consequences of not declaring potential or actual conflicts of interest. The third hospital said that as of December 2007, it has required individuals on the hospital's request-for-proposal evaluation committee to sign a conflict-of-interest form. This form outlines the conflict-of-interest situations that would prevent the person from being a member of the selection committee. However, the hospital has no further guidance on what constitutes a conflict, reporting conflict-of-interest declarations, or the consequences of not declaring potential or actual conflicts of interest.

Chapter 4
Section
4.06

Hospitals—Management and Use of Diagnostic Imaging Equipment

Follow-up on VFM Section 3.06, *2006 Annual Report*

Background

Diagnostic medical imaging includes the use of x-ray, ultrasound, magnetic resonance imaging (MRI), and computed tomography (CT) to provide physicians with important information for diagnosing and monitoring patient conditions. Ontario hospitals conducted about 10.6 million diagnostic imaging tests in the 2005/06 fiscal year.

Although CT and MRI examinations are a small percentage of the overall number of diagnostic imaging procedures, our 2006 audit focused on CTs and MRIs since the equipment can cost several million dollars, there are health safety risks associated with such examinations, and the use of CTs and MRIs has been increasing over the years. According to Ministry of Health and Long-Term Care (Ministry) data, between the 1994/95 and 2004/05 fiscal years, the total number of CT examinations increased by almost 200%, and MRI out-patient examinations increased by more than 600%. The Ministry told us that just under 600,000 MRI scans and 1.2 million CT scans were conducted in 2007/08.

In our *2006 Annual Report*, we noted that the three hospitals we visited—Grand River, the University Health Network (consisting of Princess Margaret, Toronto General, and Toronto Western), and Peterborough Regional Health Centre—were managing and using their CTs and MRIs well in some respects. However, we noted areas where these hospitals could improve their management and use of this equipment to better meet patient needs. The observations from our *2006 Annual Report* on the operations of MRIs and CTs included the following:

- Although the Canadian Association of Radiologists (CAR) noted that 10% to 20% of diagnostic imaging tests ordered by physicians were not the most appropriate tests, the hospitals we visited generally did not use referral guidelines to help ensure that the most appropriate test was ordered.
- At two of the hospitals we visited, we noted that Workplace Safety Insurance Board (WSIB) patients received much quicker access to MRI examinations than non-WSIB patients. Hospitals receive about $1,200 from the WSIB for each MRI examination of a WSIB patient.

- Wait times reported on the Ministry's website combined in-patient and out-patient wait times, even though in-patients generally received their scan within a day. At one hospital, for example, the Ministry-reported wait time for a CT was 13 days, but out-patients actually waited about 30 days.
- Many referring physicians and staff at the hospitals we visited indicated that they were unaware that CTs expose patients to significantly more radiation than conventional x-rays. For example, one CT of an adult's abdomen or pelvis is equivalent to the radiation exposure of approximately 500 chest x-rays. Ontario had not established radiation dose reference levels to guide clinicians in establishing CT radiation exposure levels for patients, although Britain and the United States have.
- Staff at the two hospitals we visited that performed pediatric CT examinations indicated that, in close to 50% of the selected cases, the appropriate equipment settings for children were not used. In addition, a then-recent survey of referring pediatricians in the Toronto area found that 94% underestimated the radiation exposure for children from CT examinations. Radiation levels are particularly important when the patient is a child, since children exposed to radiation are at a greater risk of developing radiation-related cancer later in life.
- None of the hospitals we visited analyzed the number of CT examinations by patient or monitored the radiation dosages absorbed by patients. Nor did they track if these patients had received CT examinations at other hospitals, or in other years, which would add to their lifetime radiation exposure.
- Patient shielding practices, such as the use of a lead sheet to cover body parts sensitive to radiation, varied at the hospitals we visited.
- Most of the interventional radiologists at one hospital, who are exposed to higher levels of radiation since they perform procedures close to the radiation source, did not wear the required dosimeter, which is used to determine whether their radiation exposure exceeds established maximums.
- The Ministry examines x-ray operations. However, it does not do the same for CT operations because there are no CT operating standards established under the *Healing Arts Radiation Protection Act*—even though CT examinations expose patients to significantly more radiation than x-rays.
- None of the hospitals we visited had a formal quality assurance program in place to periodically ensure that radiologists' analyses of CT and MRI examination images were reasonable and accurate.

We made a number of recommendations for improvement and received commitments from the hospitals and the Ministry that they would take action to address our concerns.

Current Status of Recommendations

The hospitals, as well as the Ministry, where applicable, provided us with information in spring and summer 2008 on the current status of our recommendations. According to this information, progress has been made in implementing most of the recommendations we made in our *2006 Annual Report*, although it will take several years for some to be implemented. In a few areas, staffing and/or funding limitations were cited by the hospitals as the reason for not making more progress in implementing the recommendation. The current status of the action taken on each of our recommendations is as follows.

REFERRAL GUIDELINES

Recommendation 1

To better ensure that patients receive the most appropriate diagnostic test given their clinical symptoms, and thereby help reduce unnecessary tests, waiting lists, and unnecessary exposure to medical radiation, hospitals should:

- *in conjunction with the Ministry, evaluate the benefits of using diagnostic imaging referral guidelines, such as those issued by the Canadian Association of Radiologists, to assist with determining the appropriateness of tests; and*
- *have a process in place to identify possibly inappropriate diagnostic imaging tests ordered by referring physicians, particularly with respect to CT and MRI referrals.*

Current Status

The Ministry commissioned the Institute for Clinical Evaluative Sciences (ICES) to review hospital data to determine the clinical indications and appropriateness of MRI and CT scans performed in Ontario. The Ministry informed us that it received the resulting report in summer 2007, and established a working group to recommend MRI and CT appropriateness standards on the basis of the findings of the report and the results of a literature review of Canadian, US, and European standards. These appropriateness standards, which include referral guidelines, are to assist health-care professionals in selecting the most appropriate diagnostic imaging test. The working group is expected to report back to the Ministry by the end of the 2008/09 fiscal year, after which the appropriateness standards are to be posted on the ministry website. As well, the Ministry indicated that clinical standards for determining the need to order a CT scan were being piloted at two hospitals at the time of our follow-up, and are expected to be implemented throughout the province in spring 2009.

At the time of our follow-up, one of the hospitals indicated that it had posted the Canadian Association of Radiologists' referral guidelines on the hospital's intranet, and had requested the chiefs of staff to make medical staff aware of them.

All three of the hospitals indicated that every request for a MRI or CT scan is being reviewed by a radiologist for appropriateness prior to the scan being scheduled. As well, the hospitals stated that, when warranted, the radiologist or hospital staff would communicate with the referring physician to suggest a more appropriate diagnostic test. One hospital noted that the appropriateness of an MRI or CT scan may be further assessed at the time of the scan—for example, should there be additional medical information available at that time—and changed to a more appropriate test.

ACCESS

Appointment Scheduling

Recommendation 2

Hospitals should establish policies to ensure that all patients, including Workplace Safety and Insurance Board patients, are prioritized for MRI and CT examinations in a similar manner based on medical need.

Current Status

The Ministry told us that all patients, including Workplace Safety Insurance Board (WSIB) patients, should be prioritized using a priority assessment tool, with priority 1 being the most urgent and priority 4 being the least urgent. As well, the Ministry indicated that it had established target time frames for conducting MRIs and CTs, based on each priority level. At the time of our follow-up, one hospital indicated that it prioritized all MRI and CT requests into these groups on the basis of the priority indicated by the referring physician and the patient's diagnosis, and scheduled the related MRIs and CTs within the Ministry's targeted wait times for each priority level. Although this hospital still maintained specific time slots for WSIB patients, it indicated that those times could be superseded for emergency patients, if needed. Another hospital noted that it also continues to give priority to WSIB patients and schedules these patients outside of the hours funded by the Ontario Health Insurance Plan (OHIP). However, the third hospital indicated that it continued to follow its established policy, as it did at the time of our 2006 audit, of prioritizing and scheduling all patient access to MRIs and CTs on the basis of the urgency of the request, and that it did not book WSIB or other third-party requests on any higher-priority basis.

Wait Times

Recommendation 3

To help hospitals better manage their MRI and CT waiting lists, and provide the public with more reliable and useful wait-time information, hospitals should:

- *seek further guidance from the Ministry to clarify the starting point for the calculation of each patient's wait time, to ensure that wait-time data are being consistently reported across all hospitals; and*
- *measure and report wait times using the Ministry's new Wait Time Information System, including information on patient priority levels, ability to meet benchmarks, and out-patient wait times.*

Current Status

The Ministry indicated that the Wait Time Information Office developed a set of standards, an assessment tool, and scorecards for the measurement of the data quality of the wait-time information collected and reported by hospitals. These materials, intended to help ensure that hospitals consistently collected and reported wait-time data, were circulated between December 2006 and February 2007 to hospitals that participated in the Ministry's Wait Time Strategy (Strategy). In addition, the Ministry commented that it has provided extensive training for all users of the Wait Time Information System (WTIS). As well, the Ministry indicated that a Data Certification Council was created in March 2007. This Council is to review the processes for collecting and reporting wait time information prior to it being publicly displayed on the Ontario government website.

All three hospitals we visited participated in the Strategy and indicated that they reported wait-time information in accordance with the Ministry's requirements. Furthermore, with respect to data consistency, at the time of our follow-up, the hospitals indicated that they all used the date the hospital received the referral form as the starting point for measuring patient wait times for a CT or MRI scan.

At the time of our follow-up, WTIS reported CT and MRI wait times from the date the scan was ordered to the date the scan was verified by a radiologist. Furthermore, the Ministry indicated that as of summer 2007, all hospitals participating in the Strategy were required to report MRI and CT wait times by priority level. As well, new features were added to WTIS that enable users to view patient wait times by priority level in comparison to targeted wait-time benchmarks. Users can now also view MRI or CT wait-time information, from the date the scan was ordered to the date the scan was completed, for out-patients.

All three hospitals we visited had their wait times reported on WTIS, including information on patient priority level, patients meeting the targeted wait-time benchmarks by priority level, and out-patient wait times for CT and MRI scans. In addition, one hospital indicated that its medical imaging management team reviews wait-time data weekly for CTs and MRIs for each priority level, while another hospital indicated that it reviews its wait-time data with its Local Health Integration Network (LHIN) partners quarterly. The third hospital indicated that it reviews wait-time data monthly and also discusses this data, along with diagnostic imaging capacity, with others providing these services within its LHIN.

Patient Cancellations and No-shows

Recommendation 4

In order to ensure that hospitals are utilizing their MRI and CT equipment efficiently, hospitals should monitor the reasons for cancellations and take proactive action where possible to minimize the impact of last-minute cancellations and no-shows.

Current Status

The Ministry indicated that WTIS allows hospitals participating in the Strategy to track why scans were cancelled, enabling hospitals to take proactive action where possible.

At the time of our follow-up, one hospital indicated that it tracks all "no-shows" in its scheduling system, although it does not monitor the reasons for the no-shows. However, the hospital maintains a list of patients who can fill last-minute vacant bookings. The hospital told us that, to help reduce no-shows and last-minute cancellations, it mails reminder notices to all patients two weeks before an MRI appointment. These reminder notices include screening criteria, which are used to help determine if patients have any reasons preventing them from undergoing the MRI. As well, this hospital stated that it has implemented clerical support to better manage the scheduling of MRI appointments.

Another hospital indicated that it monitors patient no-shows and cancellations on a weekly basis and conducts periodic audits as to the reasons why these have occurred. To minimize the impact of no-shows and last-minute cancellations, it adds cases to specific shifts (such as the midnight shift) in order to take into account a certain percentage of no-shows and cancellations; performs equipment quality assurance testing during times when patients have not showed; maintains an on-line list of patients who are willing to fill last-minute vacancies; and, when staffing levels allow, calls all MRI and CT patients at two of its sites to remind them of their appointment 48 hours in advance.

The third hospital indicated that, although its system enables it to document the reasons for CT and MRI cancellations, at the time of our audit, it was conducting no formal monitoring. This hospital stated that short-notice cancellations of out-patient CT scans do not result in downtime, owing to the heavy daily volume of emergency-room and in-patient requests for CT scans. Although, because of staffing constraints, the hospital does not notify MRI patients of their upcoming appointment, it does maintain a list of MRI patients available on short notice, to minimize non-productive time.

UTILIZATION

Recommendation 5

To better provide patients with timely access to required examinations, hospitals, in conjunction with the Ministry, should develop strategies to increase the utilization of MRI and CT equipment, including increasing the time available for performing clinical procedures.

Current Status

At the time of our follow-up, the Ministry noted that, through its Wait Time Strategy, additional funding was provided to hospitals in the 2006/07 and 2007/08 fiscal years to increase their utilization of MRI and CT scanners. The Ministry indicated that it had introduced, in conjunction with the Local Health Integration Networks (LHINs), a draft protocol in fall 2007 regarding processes for obtaining approval for new MRI and CT scanners.

One hospital indicated that it provides CT scans 16 hours a day, seven days a week, including statutory holidays and weekends, and that the addition of another CT scanner in June 2008 provided increased capacity. However, this hospital noted that MRI utilization has diminished as a result of the loss of staff to other local hospitals, but that the hospital expected to increase staffing levels and expand the hours of MRI operation by October 2008. This hospital suggested that the Ministry should consider maximizing the utilization of existing MRI scanners, which would include conducting a regional assessment of the impact on human resources of staffing newly approved MRI scanners before approving their installation.

Another hospital stated that it is moving toward providing MRI scans 24 hours a day, seven days a week, as well as extending its hours for CT scans, but that difficulties in obtaining staff have limited the extension of hours. However, radiologist coverage of certain procedures has extended into the evenings and weekends in order to help address demand. As well, the removal of underutilized dedicated time for special procedures has increased the available time for other scans. The hospital has also adopted CT workflow processes in order to increase patient throughput and reduce patient wait time. The hospital also commented that it has improved the availability and utilization of MRI scanners by implementing in August 2007 a daily tracking system and performing regular monitoring for available time slots, with the daily goal of no unbooked time.

The third hospital indicated that it is working with its LHIN and the Wait Time Information Office to increase the utilization of its MRI and CT scanners, and has requested additional funding from its LHIN to operate its MRI and CT scanners for more hours.

SAFETY

MRI Safety

Recommendation 6

To help ensure the safety of patients and hospital staff with regard to the operation of MRIs, hospitals should address the recent recommendations endorsed by the Ontario Health Technology Advisory Committee, which were designed to promote consistent and safe MRI practices in Ontario.

Current Status

At the time of our follow-up, the Ministry told us that it had reviewed the recommendations related to the operation of MRIs that were endorsed by the Ontario Health Technology Advisory Committee (Committee) and established the Diagnostic Imaging Safety Committee. In February 2007, the Ministry reviewed the recommendations of the latter committee and indicated that it was in the process of implementing a strategy to ensure MRI safety. This strategy includes requesting the applicable health-professional colleges to review and, where necessary, revise or develop appropriate policies, guidelines, or practice standards related to MRI safety. As well, the Ministry stated that it had established an expert working group to develop and implement an education strategy for patients and health-care providers on the appropriateness of ordering and the safety of MRI scans. The education strategy is expected to be implemented commencing fall 2009.

To promote the safe operation of MRIs, one of the audited hospitals indicated that it has labelled equipment as to MRI compatibility, has posted signs warning of restricted access to the MRI area, and has put locks on doors accessing the MRI area. As well, it has conducted ongoing MRI safety education for patients and personnel, including staff such as housekeeping and porters. Furthermore, the hospital stated that any new MRI installations are to address all safety issues consistent with the Committee's recommendations. Another hospital indicated that it continues to use its extensively documented policies on MRI safety, which support the recommendations endorsed by the Committee. This hospital also noted that the physical layout of its new MRI suite, which became operational in June 2008, enabled it to more fully follow the Committee's recommendations. As well, this hospital stated that it labelled equipment as to MRI compatibility and posted signs warning that access to the MRI is restricted. The third hospital indicated that hospital staff have attended educational sessions conducted by the Ontario Hospital Association to increase their understanding of the Committee's recommendations.

CT Safety

Recommendation 7

To help minimize the impact of radiation exposure for patients and hospital personnel, hospitals, in conjunction with the Ministry, should:

- *ensure that both physicians and patients are aware of the radiation exposure from CTs in order to make better informed decisions on the use of CTs versus other diagnostic imaging options;*
- *develop and implement standardized patient CT-radiation-exposure protocols, based on international and national best practices, that would ensure that the patient's radiation exposure is as low as reasonably achievable and is consistent among hospitals, and monitor adherence to these protocols through a quality assurance program;*
- *obtain information from other hospitals regarding CTs and other diagnostic imaging procedures for those patients who have had or will have a significant number of such examinations; and*
- *ensure that all hospital personnel exposed to occupational radiation wear the recommended dosimeters to enable accurate tracking of radiation to ensure radiation exposure does not exceed the limits established in the* Occupational Health and Safety Act.

In addition, to help ensure the consistent and appropriate protection of patients from medical radiation, the Ministry should review and take appropriate action on the recommendations (once available) of the Healing Arts Radiation Protection Commission and the Ontario Health Technology Advisory Committee, and ensure that CT operations are subject to an appropriate level of review.

Current Status

At the time of our follow-up, the Ministry and the hospitals indicated that a number of actions were being taken to help minimize the impact of radiation exposure on patients and hospital personnel. Specific measures included the following:

- *Educating physicians and patients on radiation exposure from CTs*—At the time of our follow-up, the Ministry told us that it had established an expert working group to develop an education strategy—for patients and for providers, including physicians—to address the issues of safety and appropriateness when ordering CT scans. The Ministry anticipated that the education strategy would be ready for implementation in fall 2009.

  One hospital indicated that, in February 2007, it provided pediatricians with an education session on the level of patient radiation exposure from CTs. It also held an education session open to all staff in October 2007, and a session specifically directed at its Medical Advisory Committee in July 2008. Although this later session promoted physician discussions with patients regarding radiation levels, no additional action was taken with respect to educating patients. Another hospital indicated that a comprehensive staff-training program was available on-line, and that handouts were provided to medical radiation technologists during a group training session in November 2007. With respect to patient education, the hospital noted that it had CT-related pamphlets that discuss radiation in general. The hospital commented that it is waiting for the Ministry's initiative regarding further patient education about the level of radiation from CT scans. The third hospital indicated that radiologists already received training in radiation safety as part of the education process to become a radiologist, and that if there is an issue with the patient dose, it can be raised with the referring physician. As well, this hospital noted that it does not have the human resources to develop its own educational programs, but that it was supportive of work being done at the provincial level. The hospital also commented that, although it has no formal process to educate patients on the level of radiation exposure from CTs versus other types of diagnostic imaging, all patients' questions related to this would be answered by the hospital's professional CT staff.

- *CT-radiation-exposure protocols*— The Ministry informed us that, in December 2006, it sent a letter to the Ontario Hospital Association, the College of Physicians and Surgeons of Ontario, and the College of Medical Radiation Technologies of Ontario requiring all hospitals to review their CT practices to ensure that patient safety is not being compromised, in particular with respect to radiation levels used for children. On December 20, 2006, shortly after the Standing Committee on Public Accounts held a hearing on this section of our report, the Committee sent a letter to the Ministry and the Ontario Hospital Association requesting confirmation that pediatric CT protocols had been disseminated to all hospitals. In early 2007, the Ministry confirmed that the Ontario Hospital Association had circulated pediatric CT protocols to all hospitals and encouraged hospitals to contact the academic pediatric centres for additional information. As well, in March 2007, the Ontario Hospital Association and the Ministry held a conference on diagnostic imaging and ensuring patient safety, which included a session on pediatric protocols. The Ministry also indicated that it is funding a project to establish diagnostic reference levels (DRLs) for CT examinations in Ontario, and will require hospitals and independent health facilities to report on their use. The primary goal of the project is to increase awareness of radiation doses associated with CT examinations across the province and to use DRLs as a tool to manage and reduce the radiation dose associated with CT examinations. This project is expected to be completed by summer 2010.

One of the hospitals indicated that, at the time of our follow-up, two studies were being done in an effort to evaluate the potential for decreasing the CT radiation dose to the patient in specific clinical settings. The hospital also noted that other low-dose CT protocols are routinely applied in its clinical practice, and that the protocols are continually being re-evaluated depending on the clinical indications and changes in CT equipment. As well, this hospital told us that its radiologists provide feedback to its CT technologists regarding adherence to established protocols as part of an ongoing quality-assurance program.

Another hospital indicated that it had compared its pediatric scanning protocols with those used by two pediatric hospitals, and that staff had observed the CT operations of these two hospitals. The hospital also noted that staff actively participate in CT user-group meetings to promote the sharing and development of best practices. As of April 2007, the hospital said it was also conducting quarterly audits to review scanning protocols used and their appropriateness, both clinically and in relation to patients' radiation exposure.

The third hospital noted that, although it does not specifically monitor adherence to its protocols, all CT exams are completed based on predetermined and programmed protocols, and that its pediatric protocols follow the Hospital for Sick Children's guidelines. As well, new protocols were established for the hospital's new CT scanners. The hospital added that the use of consistent protocols among different hospitals would depend on the make and model of the CT scanner as well as the preferred protocols of the radiologists at each hospital. As well, the hospital indicated that it provides radiation safety training to all professional and support staff working in the CT area. Radiation safety practices were reviewed with the CT technologists and all CT technologists follow the "as low as reasonably achievable" (ALARA) principle for radiation exposure in establishing the CT settings.

- *Obtaining information from other hospitals on prior diagnostic-imaging procedures*—At the time of our follow-up, one hospital told us that it was obtaining information on imaging studies completed at other regional partner hospitals or hospitals outside of its region and reviewing the information prior to the completion of CT scans. Another hospital noted that there was no accurate and effective manner in which radiation-dose information for an individual patient could be calculated and communicated between facilities. The third hospital indicated that, although it may obtain information on a patient's prior CT scan to compare to a current scan, it does not obtain information to determine which patients have had or will have a significant number of such examinations.
- *Wearing dosimeters and tracking radiation exposure*—One hospital indicated that it is compliant with the use of dosimeters as outlined in the *Occupational Health and Safety Act* and that dosimeter results are reviewed and provided to staff. Another hospital told us that all CT staff wear personal dosimeters, and that it reviews radiation exposure reports quarterly to ensure that staff exposure is within established limits. The third hospital stated that, although it provides radiation dosimeters to CT operators, physician compliance with their use is an ongoing issue.

  In addition, the Ministry of Labour, which periodically inspects hospital dosimetry records to ensure that radiation exposure limits are not exceeded, indicated that in the 2005 and 2006 calendar years, they inspected about 120 hospitals, which resulted in a total of 53 orders of non-compliance. It told us that the hospitals had complied with all the orders issued. The Ministry of Labour also noted that it inspected about 19 hospitals and nine x-ray clinics in the 2007 calendar year, but that summarized results of the inspections were not yet available at the time of our follow-up. For 2008, the Ministry of Labour anticipated inspecting a total of 50 hospitals and x-ray clinics.
- *Recommendations from the Ontario Health Technology Advisory Committee and the Healing Arts Radiation Protection (HARP) Commission*—The Ministry indicated that, in response to the Ontario Health Technology Advisory Committee's report, it established the Diagnostic Imaging Safety Committee. This committee submitted to the Ministry its February 2007 report, which contained its recommendations for improving CT safety. As well, in June 2007, the Ministry received the recommendations of the HARP Commission relating to improvements in CT services. At the time of our follow-up, the Ministry commented that it had reviewed the recommendations from the Commission and from the Diagnostic Imaging Safety Committee, and was in the process of implementing a strategy to ensure CT safety. In addition to initiatives mentioned above—such as an education strategy and a project to establish diagnostic reference levels—as with MRIs, this strategy includes requesting the applicable health professional colleges to review and, where necessary, revise or develop appropriate policies, guidelines, or practice standards related to safe CT operations. It was also to include a review by the Ministry of the *Healing Arts Radiation Protection Act* and regulations to ensure that CT scans are only completed if prescribed by a qualified health professional and that CT technologies (including dental CTs) are operated by qualified individuals. In addition, the Ministry noted that it is collaborating with the Ontario Hospital Association, the College of Physicians and Surgeons of Ontario, the Royal College of Dental Surgeons of Ontario, and the College of Medical Radiation Technologies of Ontario to develop strategies to identify and implement best practices in CT operations.

One hospital indicated that, although not currently required to by law, it completes certain HARP testing of its CT scanners on an annual basis and fully supports the specific inclusion of CT scanners under the *Healing Arts Radiation Protection Act*. While the Ministry's interpretation is that CT scanners are included under the *Healing Arts Radiation Protection Act* and regulation, our Office believes that this is generally not clear in the underlying legislation.

EXAMINATION RESULTS

Recommendation 8

To help ensure that referring physicians have accurate information on a timely basis for making patient-related decisions, hospitals should:

- *adopt benchmarks for the timely reporting of both urgent and normal MRI and CT referrals and monitor adherence to those benchmarks; and*
- *implement an independent quality assurance program that includes a periodic, preferably external, review of a sample of each radiologist's analysis of diagnostic images.*

Current Status

The Ministry indicated that, as of the time of our follow-up, it had not yet developed benchmarks for the turnaround time from the date a patient receives an MRI or CT scan to the date the radiologist verifies the report. However, the Ministry noted that the Wait Time Information System (WTIS) was enhanced in fall 2007 to include information accessible to health-care providers on this turnaround time.

One hospital indicated that it had established benchmarks for both urgent and normal MRIs and CTs, and that verbal reports are provided for certain urgent cases. This hospital also indicated that it uses the WTIS data to monitor the turnaround time for radiologists' reports. As well, emergency-room physicians can access audio or preliminary reports. This hospital also noted that it had developed a detailed procedure for referring physicians to access radiologists' reports after regular business hours, which was implemented in December 2006, and established a call centre in January 2007 to assist referring physicians with access to radiologists or diagnostic services. Another hospital indicated that it had not formally adopted benchmarks for monitoring turnaround times. However, in spring 2008, the hospital implemented a new voice-recognition dictation system to electronically transcribe radiologists' comments. The hospital anticipated that this system would improve the reporting turnaround times and enable it to start measuring and monitoring turnaround times by October 2008. The third hospital indicated that it established a 24-hour benchmark for all radiologists' reports, and that the median turnaround time is now about 24 hours. In addition, urgent reports are prioritized and available immediately after editing by the radiologist or the transcriptionist. Therefore, the hospital feels that it is not necessary to establish benchmarks for the turnaround time for urgent radiologists' reports.

With respect to an independent quality-assurance program, one hospital indicated that an external review of images has taken place on an occasional basis (for example, for breast imaging), but that an independent external review of each radiologist has yet to be done on a more regular basis. This hospital commented that, given the current workload of the radiologists and the Wait Time Strategy initiative to increase the hours available for MRI scans, it is not reasonable to subject any significant volume of radiologists' reports to second reads. Another hospital told us that it did not have the human resources to perform internal reviews of a sample of each radiologist's analysis of diagnostic images. However, this hospital had no objection to external reviews conducted by an independent body. It also indicated that plans were under way to restart departmental rounds in order to review interesting, unusual, or problem cases. The third hospital noted that it was planning to implement a formalized quality-assurance program that includes second reads or peer reviews of selected radiologists' analysis of diagnostic images.

Chapter 4

Section

4.07 Hydro One Inc.—Acquisition of Goods and Services

Follow-up on VFM Section 3.07, *2006 Annual Report*

Background

Hydro One Inc. was created following the reorganization of Ontario Hydro, pursuant to the *Electricity Act, 1998*, and incorporated under the *Business Corporations Act* on December 1, 1998. Wholly owned by the province of Ontario, Hydro One has as its principal business the transmission and distribution of electricity to customers in Ontario.

In 2007, Hydro One controlled $12.8 billion in total assets ($12 billion in 2005), consisting primarily of its transmission and distribution systems. It earned $4.7 billion in revenue ($4.4 billion in 2005), while its total costs were $3.8 billion ($3.4 billion in 2005). These costs included $2.2 billion ($2.1 billion in 2005) for the purchase of electricity to distribute to its customers, $995 million ($792 million in 2005) for operations, maintenance, and administration, and $521 million ($487 million in 2005) for depreciation and amortization.

Our 2006 audit focused on Hydro One's spending on goods and services, including its acquisition of capital assets but excluding employee salaries and benefits. This spending totalled more than $800 million in the 2005 calendar year. Once a purchase decision has been made by Hydro One staff, an outside service provider performs the purchasing activities on Hydro One's behalf. In-house departments and individuals also do a significant amount of buying (using corporate charge cards)—$163 million in 2005, or about 20% of total spending.

We found that Hydro One generally had adequate policies in place to help ensure that goods and services were acquired with due regard for value for money. However, its systems and procedures were not adequate to ensure compliance with corporate policies. In 2004, Hydro One's internal audit department examined many aspects of the corporation's purchasing functions and concluded that, in several key areas, internal controls needed to be improved. We noted at the time of our audit that a number of internal control weaknesses remained to be addressed.

Some of our major concerns and observations were as follows:

- Hydro One's corporate policy encourages the establishment, through a competitive process, of blanket purchase orders (BPOs) for the procurement of goods or services directly from specified vendors for a stipulated period of time. However, the BPOs we examined had not always been established through a competitive procurement process, or had no documentation available to verify that a competitive process had been used. In addition, in a number of cases we tested, BPO suppliers were being allowed to increase their prices periodically without competition. For example, a BPO established in 1996 for a two-year term with an original value of $120,000 had been revised 39 times, extended an additional eight years, and increased in value to $6.7 million.

- Competitive selection of suppliers is required for all Hydro One purchases over $6,000 where no BPO arrangement exists. We found that procedures needed to be improved to ensure that the required competitive process was followed in the acquisition of goods and services.
- Hydro One's procurement policy allows goods and services to be purchased from a single vendor ("single sourcing") if it is neither possible nor practical to obtain them through the normal competitive processes. However, many of the single-source purchases for materials, consulting services, and contract staff that we examined could have been obtained from several different vendors, and there was no supporting documentation on file justifying the single-source decisions.
- In December 2001, Hydro One entered into a 10-year, $1-billion agreement to outsource significant operations of the corporation. Under its master service agreement with the service provider, Hydro One can reduce the fees it pays the provider if benchmarking studies show that the provider is charging more than fair market rates. Although a consultant's benchmarking report concluded that no adjustment to the fees was required, the consultant had examined only two of six lines of business conducted by the service provider.
- During the 2005 calendar year, Hydro One purchased $127 million worth of goods and services using corporate charge cards. We found instances where the documentation, such as charge-card slips, submitted in support of expenditures was often insufficient to determine what was purchased. We also identified instances where monthly statements had been reviewed and approved even though employees had not provided details about the use of cash advances received and charged to their corporate charge cards.
- A senior executive's secretary charged over $50,000 to her charge card, of which a significant portion was on behalf of that executive. The senior executive approved the transactions, whereas Hydro One's policies required that executives' superiors approve executive credit-card expenses.

We made a number of recommendations for improvement and received commitments from Hydro One that it would take action to respond to the issues we raised.

Current Status of Recommendations

Information we obtained from Hydro One suggests substantial progress was made in addressing all of the recommendations in our *2006 Annual Report*. As well, Hydro One has initiated internal compliance reviews in most areas to ensure that all staff are complying with its strengthened procedures. The current status of action taken on each of our recommendations is as follows.

PROCUREMENT OF GOODS AND SERVICES

Needs Assessment and Justification for Purchases

Recommendation 1

To help ensure that corporate needs are adequately assessed and that purchases are properly justified prior to acquisition, Hydro One should:

- *follow the requirements for a documented business case for major purchases;*

- *verify that sufficient information has been provided to supply-management buyers; and*
- *adequately evaluate corporate needs, including consideration of alternatives and existing resources, prior to proceeding with the acquisition.*

Current Status

Hydro One informed us that it reinforced the requirement to produce a documented business case for major purchases. One memorandum was sent to all Hydro One staff regarding revisions to procurement policies and procedures. Another, to all line managers, reiterated the requirement to have on file a documented business case for all major purchases, and emphasized the requirement for proper objective evidence to show that a purchase was properly justified and approved.

Hydro One initiated a quarterly internal compliance audit to test whether a sample of purchase-order files contain the necessary documentation. We were informed that, commencing in April 2008, the frequency of compliance audits was temporarily increased to monthly from quarterly, providing management with more current information to encourage speedier implementation of any necessary remedial action. The purchase-file checklist was revised to include all relevant purchase-justification documents. Results of compliance audits are summarized in compliance scorecards and presented for review to the Vice President of Supply Chain Services, the Executive Vice President and Chief Financial Officer, and Outsourced Supply Services Management, who then address any non-compliance issues. We were also informed that these compliance results are discussed regularly with Hydro One's President at executive meetings.

The corporate policy on consultants and the corporate procedure for retention of consultants have been revised to include requirements to:

- evaluate and document the rationale for hiring contract staff before a contract is awarded; and
- exhaust all options to have the work performed internally before retaining contract help.

Blanket Purchase Orders

Recommendation 2

To ensure that goods and services are acquired at the lowest overall cost, Hydro One should:

- *establish blanket-purchase-order agreements through a competitive process unless a sound documented rationale for sole-sourcing has been approved;*
- *review existing long-standing blanket purchase orders to determine if they should be re-tendered;*
- *ensure that the prices being paid are those set out in the blanket-purchase-order agreements; and*
- *develop procedures regarding significant modifications to the terms and conditions of blanket purchase orders.*

Current Status

We were informed that Hydro One reinforced the requirement that all blanket purchase orders (BPOs) be established using a competitive process unless single sourcing has been properly approved. Memoranda have been sent to all Hydro One staff highlighting changes in the procurement procedures. One of these memoranda states that goods and services should be procured through an auditable and competitive process open to qualified vendors, unless circumstances dictate consideration of single sourcing. The procurement procedure includes specific guidelines as to when single sourcing may be considered.

Hydro One also indicated that, in 2006, it put in place a new BPO renewal plan to track and monitor BPOs expiring any time up to December 2007. Procurement managers analyzed and determined whether each BPO should be renewed, extended, or allowed to expire and/or be retendered. Team leads were then required to follow the plan with monthly updates. We understand that this new BPO renewal plan is being maintained on an ongoing basis and reviewed on a monthly basis with Hydro One Supply Chain Services.

A memorandum was issued to all Hydro One staff reinforcing line-manager responsibility to ensure that the corporate procurement policy is followed for all purchases. This policy requires that the pricing of BPO agreements be monitored to ensure that all invoices and price changes are in accordance with established terms. Quarterly (and, temporarily, monthly) internal-compliance audits monitor adherence to the policy. In addition, any significant changes to the BPO terms and conditions require appropriate approvals. The procedure further states that adding an item to a BPO without competition requires approval equivalent to that for a single-source agreement.

Competitive Selection

Recommendation 3

To help ensure that it is getting value for money and that purchases are acquired through an open, fair and competitive process, Hydro One should follow established procurement policies and guidelines, and adequately document decisions made in the selection of vendors.

Current Status

Hydro One advised us that a memorandum was issued to all its employees emphasizing that management expects compliance with all policies and procedures. A separate communication was issued to explain that it is the responsibility of line managers to ensure that the corporate procurement policy and organizational authority registers are followed for all purchases. This communication also highlighted the expectation that goods and services should be procured through an auditable and competitive process unless business circumstances dictate the use of an alternative process. Documentation of the competitive process is to be retained by the buyer for all purchases in excess of $15,000 and consulting work in excess of $50,000.

Single Sourcing

Recommendation 4

To ensure that single sourcing is used only when it is not possible or practical to go through the normal competitive process, Hydro One should implement oversight procedures to ensure that adequate justification for single sourcing is documented and properly approved before the purchase is made.

Current Status

We were informed that Hydro One employees received clarification regarding the requirements for single-source purchases. A memorandum was also issued that outlined the changes made to the procurement procedures. According to the amendments, single-source approval must be sought from the Manager of Supply Chain Management for purchases of goods and services with an estimated value of more than $15,000, or consulting services worth more than $50,000. We were also informed that Hydro One has developed a process to ensure that adequate justification and appropriate approvals for single sourcing are documented in accordance with the policy. The single-source-procurement approval form includes a section for justification of the single-source purchase and, to help ensure compliance, requires the signatures of the requisitioning line of business and one of the following: Supply Chain Management, the Executive Vice President and Chief Financial Officer, President and Chief Executive Officer, or Executive Committee, as specified by the applicable organizational-authority register or the executive-authority register.

Managing and Controlling the Purchases of Goods and Services

Recommendation 5

To properly manage and control the procurement of goods and services, Hydro One should:

- *ensure that it has signed contracts or other documentation that define the responsibilities of both parties, including the price and specific deliverables to be provided;*
- *ensure that purchase orders and contracts accurately reflect the agreed-upon terms and conditions under which the contract was awarded;*
- *ensure that any changes to the original contract terms and conditions are adequately justified, appropriately approved, and properly documented;*
- *identify the minimum documentation that is essential for each purchase and put in place a monitoring process to ensure that purchasing files are consistently maintained with all required information; and*
- *evaluate all vendors upon completion of work, as required, and examine the costs and benefits of setting up a central depository of information about vendors' performance for use throughout the corporation.*

Current Status

Hydro One advised us that, subsequent to our audit in 2006, it commenced a review to ensure the completeness of documentation as required by the revised procurement procedure. According to the revised procurement procedure, purchase-order and supporting contract files must accurately document the agreed-upon terms and conditions under which the contract was awarded. Any changes to the original contract terms and conditions must be adequately justified, appropriately approved, and properly documented. Hydro One now maintains a purchase-order file-documentation checklist outlining the documentation requirement for each purchase-order file.

To monitor compliance with procurement requirements, Hydro One implemented a process in May 2006 to review all purchase-order files prior to closing the file. In addition, quarterly (and, temporarily, monthly) sample compliance tests (compliance audits) are performed to help ensure that all purchase-order files contain the necessary documentation. We reviewed the most recent quarterly compliance report, issued in March 2008, and noted that over 80% compliance was achieved for the documentation attributes tested by Hydro One's internal compliance team. The audit report made a number of recommendations for further improvement. It should be noted that the monthly audit report issued in June 2008 found 96% compliance for the five key documentation attributes reported to the Board of Directors:

- appropriate authorizations for purchase orders;
- requirements met for single sourcing;
- vendor-selection justification completed and approved;
- evidence that advertised vendor selection was completed and approved; and
- bid evaluations completed and documented.

The procedure for retention of consultants has been revised to provide the purchaser with a template form to evaluate the performance of a vendor. An evaluation co-ordinator is to review reports for all completed and outstanding evaluations on a weekly basis and follow up on overdue evaluations on a monthly basis to ensure that they are completed. The completed form is to be sent to Supply Chain Management, which acts as an interim central repository. A database for tracking performance evaluations for consultants and contractors was developed and, as of October 2007, contractor and consultant engagements were included in the database. The completed evaluations are stored in the database and will become available to other requisitioners for future reference.

Procurement and Payment Approval

Recommendation 6

To help ensure that purchases of goods and services are properly authorized and that the appropriate amounts are paid, Hydro One should:

- *complete the development of its authority register to clarify signing authority requirements;*

- *reinforce the requirement that Supply Management Services staff have all required approvals on hand before proceeding with the purchase; and*
- *make payments on a timely basis to avoid late charges and take advantage of early payment discounts.*

Current Status

Hydro One informed us that a new authority register has been developed and completed to clarify signing-authority requirements. Organizational-authority registers provide specific instructions on the level of authority for each procurement type, classified mainly by dollar value. Training sessions were also provided to staff regarding the organizational-authority registers. All staff that request, order, or approve transactions related to the purchase of goods and services, projects, or programs were to attend the sessions.

Hydro One also revised its policy to clarify signing-authority requirements in cases where more than one employee is involved. Now the most senior person associated with the expenditure must have it approved by his or her superior. Hydro One indicated it sent a memorandum to all employees reinforcing the requirement for compliance with the revised procurement policy and procedure, and further emphasizing that compliance will be monitored through quarterly compliance audits.

Hydro One also advised us it sent all employees a communication stressing the importance of making payments on time or early to obtain early-payment discounts, and of avoiding late-payment penalties. In May 2007, and again in March 2008, Hydro One performed reviews of a sample of invoices for late charges and found that they were not significant and did not justify a permanent change to the system to track them. However, we were informed that an annual review similar to the ones previously conducted will be performed to ensure that late-payment charges do not escalate.

Management of Outsourcing Agreement

Recommendation 7

To help ensure that it is receiving the best value for the $1 billion it is spending on its 10-year outsourcing agreement, Hydro One should:

- *consider benchmarking all outsourced lines of business in future benchmarking studies;*
- *collect service credits it is entitled to;*
- *reconcile summary reports from the service provider with the amounts recorded as expenses in the general ledger on a monthly basis; and*
- *tender significant information technology projects in accordance with corporate policy.*

Current Status

In November 2007, Hydro One engaged a consulting company to benchmark all six lines of business performed by its outsourced service provider. The purpose of the engagement was to provide Hydro One with an independent assessment of the extent to which the services from the outsourced service provider were being delivered at a price no greater than fair market value as defined by the service agreement between Hydro One and the service provider. Staff are working with the consultant to deliver a detailed report to company management that would also be used to make any necessary pricing adjustments in accordance with the terms of the outsourcing agreement.

We were informed that Hydro One closely monitored service-level failures by the supply management services department of the outside service provider and did obtain certain service credits for 2007. At the time of our follow-up, it was exercising its legal entitlements to obtain service credits to which it is entitled.

Hydro One also indicated that a process has been implemented to reconcile the summary reports to the general ledger on a monthly basis. Differences between the monthly summary report and general ledger are analyzed and explained in the reconciliation.

Hydro One indicated that there must be competitive bids for all information-technology projects, except in cases where advance approval was granted to buy from a single source. We were also advised that Hydro One has communicated and will enforce the requirement that single-sourced information-technology projects awarded to the outsourced service provider must be fully compliant with its single-source policies. Also, for the outsourced service provider, Hydro One developed a detailed five-stage contracting process that the requisitioner and contract management must follow and which provides details about how each party should be performing, and what each should be doing, at every stage of the contracting process. The five stages are:

- determining technical requirements;
- bid solicitation;
- bid evaluation;
- service delivery; and
- post-contract evaluation.

CORPORATE-CARD PURCHASES

Administration of Corporate Charge Cards

Recommendation 8

To improve administration and control over the corporate-charge-card program, Hydro One should:

- *ensure that proper documentation and approvals are obtained for setting up local charge-card co-ordinators;*
- *follow up on and, if necessary, cancel inactive charge cards and active cards that are assigned to terminated and inactive employees; and*
- *review current credit and cash-advance limits placed on corporate charge cards to ensure that the limits are reasonable given the individual's responsibilities and the intended use of the card.*

Current Status

We were informed that a process has been implemented requiring all local charge-card co-ordinators to be approved by the corporate charge-card co-ordinator. The corporate co-ordinator forwards the authorized forms to the corporate-charge-card administrator, who ensures that proper documentation and approval has been obtained before the local co-ordinator is set up in the system.

Hydro One introduced a process to review—and cancel, if necessary—inactive cards and active cards assigned to inactive or terminated employees. Hydro One's administrative procedure requires the bank to cancel any card where there has been no financial or account activity for one year. We were informed by Hydro One that as of February 2008, these cancelled cards cannot be reactivated, and cancelled cards that expire cannot be reissued. We were informed that each month, Hydro One downloads employee-listing information from the bank and validates it against its own human-resources database. Any inconsistency is brought to the attention of the local charge-card co-ordinator for corrective action. The corporate-charge-card co-ordinator monitors this report on a monthly basis and follows up on recurring instances as appropriate.

In 2007, Hydro One initiated a process to generate a quarterly report for each line of business that analyses charge-card spending patterns for the previous 12 months. The reports examine the difference between credit limits and actual spending, and are provided to the management of each line of business for review. Any necessary adjustments to credit limits are sent to the local charge-card co-ordinator for processing.

Review of Monthly Statements

Recommendation 9

To effectively manage the use of corporate charge cards and to ensure that all expenditures are incurred for business purposes, Hydro One should implement procedures to ensure that:

- *cardholders submit original detailed receipts with their charge-card statements for review and approval;*
- *necessary explanations and other supporting information are provided to verify the business nature of expenses incurred;*

- *cash-advance expenditures are detailed and accompanied by supporting documentation to facilitate management review and approval; and*
- *monthly charge-card statements are reviewed for adequacy of supporting receipts and approved on a timely basis.*

Current Status

Current policy requires all expense claims to be adequately documented. Management has reinforced this requirement in a communication to all employees that emphasized the importance of complying with the corporate charge-card policy. The memorandum also reiterated that all expense claims must be adequately justified and include complete supporting documentation, and that summary cash-use reports must show both the cash advance and matching expenses to facilitate review by the supervisor.

More specifically, all expenditures on the charge-card statement must be supported by a receipt or invoice. In addition, all cash withdrawals must be supported by a cash-use form and all cheques must be supported with a copy of the cheque, along with original related documentation.

The memorandum also outlined the obligation of supervisors to review thoroughly all expense claims prior to approval to ensure that they meet all procedural requirements and that they relate to valid and reasonable business expenses. New policy changes require that all charge-card statements must be approved within 60 days of the statement date.

Monitoring Corporate Charge Cards

Recommendation 10

To effectively monitor corporate charge-card usage, Hydro One should implement procedures to ensure that:

- *management reviews and signs off on monthly charge-card departmental summary-level and exception reports to ensure that any items requiring follow-up are identified and addressed in a timely manner; and*
- *purchases made through corporate charge cards are fully allocated to projects and general ledger accounts so that project costs and expense accounts can be monitored over time for reasonableness.*

Current Status

We were informed that Hydro One implemented a process in which the corporate-charge-card co-ordinator follows up on any discrepancies appearing on the employee listing report for two consecutive months, and retains the explanations regarding any exceptions. On a monthly basis, supervisors are required to review and approve the current month's report and advise the local charge-card co-ordinator of any errors, or of changes required.

We have also been advised that management has emphasized to employees the importance of allocating credit-card charges to either a project or the appropriate general-ledger account. Further, quarterly spending reports have been generated for management review for each line of business, providing total credit-card expenditures for a given quarter by type of expenditure.

To assess compliance, Hydro One reinstituted the compliance audits that had previously been suspended. These compliance audits will be performed quarterly—although at the time of our follow-up review they were being done on a monthly basis—with findings reported to the vice president of the applicable line of business as well as the Executive Vice President and Chief Financial Officer and the President and Chief Executive Officer for review.

Use of Corporate Charge Cards

Recommendation 11

To ensure that corporate charge cards are used only for the purposes intended, namely employee business expenses and local purchases less than $15,000, Hydro One should:

- *minimize the use of charge-card cheques; and*

- *use the finance department to process large payments to major vendors.*

Current Status

Hydro One indicated that an email was issued by the Chief Financial Officer in April 2006 to all employees regarding the use of corporate charge cards. Hydro One has reinforced the policy that charge-card cheque-writing should be limited to either exceptional circumstances or to reimbursement of business expenses of an employee who does not have a Hydro One credit card. In the rare circumstances that a vendor has not been set up to accept credit cards, invoices with accompanying approvals can be sent to accounts payable for payment processing. However, if a payment is required immediately, charge-card cheques can be used but supporting documentation must be included in the monthly expense report. Further, we were advised that an audit process was introduced to review all cheques over $15,000 for compliance with corporate policy.

Business Expenses and Employee Recognition

Recommendation 12

To help ensure that business expenses and employee recognition expenditures are in accordance with corporate policy and are reasonable under the circumstances, Hydro One should:

- *develop guidelines to establish corporate expectations regarding the reasonableness of expenditures under various circumstances;*
- *reinforce the obligation for management to thoroughly review expense claims prior to approval; and*
- *implement a more comprehensive process to periodically review expense claims for compliance with corporate policy.*

Current Status

Hydro One developed guidelines regarding acceptable and unacceptable expenditures under various circumstances. The guidelines also outline the responsibilities of employees, supervisors, and the Hydro One accounts-payable department. Hydro One indicated that these guidelines have been implemented, communicated to employees, and will be enforced.

Hydro One also sent a communication to employees regarding business expenses and the management and use of corporate charge cards. This communication reinforces the obligations of supervisors to thoroughly review expense claims to ensure compliance with all procedural requirements and to ensure that all expenses are valid, reasonable in the circumstances, and business-related.

Hydro One also reinstituted a previously suspended sample testing process regarding compliance with procurement policies and procedures for single sourcing, the use of consultants, employee business expenses, and the management and use of corporate charge cards. These audits, done every month on a temporary basis, will eventually move to a quarterly schedule. The results are communicated to the divisional vice president for action where required, and to the Executive Vice President and Chief Financial Officer (CFO) and the President and Chief Executive Officer (CEO) for review.

Hydro One implemented a process to monitor the documentation and authorization requirements for expenses incurred by the Chair of the Board, the CEO, the CFO, and the General Counsel by engaging an external auditor to examine compliance. Hydro One revised the policy on employee business expenses to include in the review the expense reports of the administrative assistants reporting to senior executives. The revised policy also requires that the executive's superior approve the expenses of the executive's administrative assistant.

Monitoring of Fleet Charge Card

Recommendation 13

In order to ensure that it is being billed the correct amount for authorized repairs, service maintenance, and fuel costs, Hydro One should:

- *consider a more rigorous verification of the monthly fleet-card billings; and*
- *retain adequate documentation associated with the verification of monthly billings.*

Current Status

We were advised that sample verification of monthly fleet-card billings has been increased to 100 transactions. Fleet staff are also required to request 25 invoices from vendors directly to ensure billing accuracy. Further, fleet management performs random checks of various transactions on a weekly basis to ensure that the Hydro One employee who approved the transaction has the appropriate level of authority.

According to Hydro One, to help ensure compliance, the fleet-asset manager reviews and signs off on each transaction verified by fleet staff. He or she also signs off on the cover sheet for the month as evidence of his or her review. The manager of fleet operations also signs off on these processes on a quarterly basis.

Chapter 4
Section
4.08

Ministry of Health and Long-Term Care

Ontario Health Insurance Plan

Follow-up on VFM Section 3.08, *2006 Annual Report*

Background

The Ministry of Health and Long-Term Care (Ministry) works to provide all Ontario residents with a readily accessible, publicly funded, and accountable health-care system. The Ontario Health Insurance Plan (OHIP) is a key vehicle for delivering on this objective. For the 2007/08 fiscal year, the Ministry paid more than $9.8 billion ($8.3 billion in 2005/06) for insured services. In order to access provincial health-care services at no personal cost, Ontario residents must have a valid health card. There are close to 13 million active OHIP health cards in circulation.

In our *2006 Annual Report*, we concluded that while controls and procedures were generally adequate to ensure that claims were paid accurately, they did not effectively mitigate the risk that people who were not entitled to OHIP services could receive medical care free of charge or that health-care providers could be paid for inappropriate billings. Some of our specific concerns were:

- In 1995, the Ministry began gradually to replace the older red-and-white health cards with new photo cards containing additional security features. This project was to have been completed by 2000, but at the current rate of conversion, it would take at least another 14 years to phase out the old cards and verify the eligibility of all cardholders. Our data analysis indicated that there were approximately 300,000 more health cards in circulation than there were people in Ontario.
- Few resources had been devoted to monitoring health-card usage to identify areas that would warrant review or investigation. We identified thousands of cases where cardholders submitted medical claims from every region of the province within a short period of time, and instances where service-provider billings appeared excessive. We also questioned why the Ministry's Fraud Program Branch did not have a mandate to conduct fraud audits or investigate suspected fraud cases.
- In 2004, the Ministry had suspended the activities of the Medical Review Committee, which reviewed cases where physicians may have filed inappropriate claims. As a result, we estimated that the Ministry may have lost the opportunity to recover as much as $17 million, since all outstanding reviews were cancelled at the time of the suspension and the Ministry had not initiated an audit review process for suspicious cases since that time.
- Physician licensing information was not being updated properly. We identified 725 unlicensed physicians who could still submit

claims, with 40 of them having billed and received full payment from the Ministry after their licences had expired.

- We found weaknesses in the procedures used to review rejected claims and in systems designed to verify claims and protect the confidential records of cardholders and service providers in the Ministry's computer databases.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

Current Status of Recommendations

On the basis of information we obtained from the Ministry of Health and Long-Term Care, we concluded that the Ministry has taken some action on almost all of our recommendations, and has made significant progress in addressing several of them. For others, more work will be required to fully address them.

HEALTH CARDS

Conversion of Red-and-white Cards to Photo Health Cards, and Number of Health Cards in Circulation

Recommendation 1

To ensure that publicly funded health services are provided only to eligible individuals, the Ministry of Health and Long-Term Care should expedite the conversion of the pre-1995 red-and-white Ontario Health Insurance Plan (OHIP) cards to the current OHIP photo cards in order to properly verify the eligibility of these health-card holders.

Current Status

In our *2006 Annual Report*, we noted that the conversion rate had dropped from its high of approximately 800,000 conversions in the 1997/98 fiscal year to about 400,000 annually in 2006, and that, at that rate, it would take at least another 14 years to phase out entirely the remaining 5.7 million red-and white cards. In our current follow-up, the Ministry advised us that is has increased its efforts at phasing out these older cards and has reduced the total number of cards in circulation by 1.1 million cards over the past two years. This reduction includes cancellations as well as conversions, so the actual conversion rate is still considerably lower than it was in the late 1990s. However, if the current pace of conversions and cancellations is maintained, all of the old red-and-white cards will be completely phased out by about 2016, or about eight years from now.

In 2006, we also noted that, at the time of our audit, there were approximately 305,000 more health cards in circulation than the estimated total population of Ontario at that time. During our follow-up, the Ministry advised us that through an ongoing data integrity initiative, approximately 440,000 red-and-white cards had been cancelled where the Ministry had evidence that the cardholders were not living in Ontario. As of March 31, 2008, the Ministry reported having 12.7 million valid and active health-card holders in its records, while Statistics Canada's most recent population estimate for Ontario was 12.9 million.

We had further noted in our *2006 Annual Report* that approximately 86% of the 305,000 extra health cards were in circulation in the Toronto area, and that there appeared to be an extra 10,000 cards in regions bordering the United States, including the Algoma district, Essex County, Thunder Bay, and Rainy River. In our current follow-up, the Ministry informed us that it had been focusing its conversion efforts in these communities and, while 64% of Ontarians now have a photo health card, over 80% of the residents of Thunder Bay and Fort Francis (Rainy River) now have these newer cards. A project is also underway to convert an additional 68,000 red-and-white-card holders in the Toronto area.

Beginning in April 2008, responsibility for the health-card registration process was transferred to ServiceOntario. Accordingly, the health-card conversion project is now the responsibility of the Ministry of Government Services.

Health-card Monitoring

Recommendation 2

To identify potential ineligible use of publicly funded health services, the Ministry of Health and Long-Term Care should:

- *Review the mandate of its Fraud Program Branch, with a view to expanding the range of its activities to include OHIP-usage monitoring and fraud investigations;*
- *consider expanding its monitoring activities to identify potentially suspicious individual health-card usage; and*
- *resolve the outstanding backlog and follow up on potentially ineligible cases in a consistent, rigorous, and timely manner.*

Current Status

The Ministry informed us that it has expanded the mandate of the Fraud Program Branch (Branch) to establish a centralized approach for identifying fraud and fraud-related activity. The new mandate of the Branch includes analyzing ministry claims payments for potential indicators of fraudulent activity and reviewing all fraud-related cases prior to any referral to the Health Fraud Investigations Unit of the Ontario Provincial Police. Three analysts have been seconded to the Branch, and the Ministry indicated that, as of August 2008, the Branch had received 295 potential fraud case files for review and had referred 196 of these cases to the police.

In our *2006 Annual Report*, we expressed our concern that, as of October 2005, the Ministry had a backlog of over 7,000 client eligibility assessments awaiting review, and over 90% of these cases were over six months old. In our current follow-up, the Ministry informed us that it has introduced a new triage process that allows for a faster preliminary review of client eligibility assessments to determine if there is enough evidence to proceed with a full eligibility assessment. In addition, it implemented a pilot project in which cancellation notices were sent to clients undergoing eligibility assessment whose photo health cards had expired. As of July 2008, the Ministry, working with ServiceOntario, reported having completed the work on and having closed some 4,500 of these 7,000 backlogged cases. The Ministry estimates that the remaining backlogged cases will be completed by December 2008.

Authentication of Citizenship Documents, Application Processing, and Special Registration

Recommendation 3

To better ensure that health cards are issued only to eligible individuals, the Ministry of Health and Long-Term Care should:

- *follow up, in a timely manner, on outstanding cases in which the authentication of citizenship documents resulted in unmatched differences;*
- *consider expanding the scope of the electronic authentication program to other commonly used citizenship documents, such as the Canadian passport and the Canadian citizenship card;*
- *reconcile health-card applications received to processed transactions, and randomly perform supervisory checks matching system data to application and supporting documents;*
- *ensure that all agencies assisting homeless individuals to obtain health cards have valid agreements with the Ministry and obtain proof of applicants' eligibility for publicly funded health-care services; and*
- *verify the authenticity of providers who sign photo/signature exemption forms.*

Current Status

The Ministry informed us that it had completed a detailed review of the outstanding cases requiring authentication of citizenship documents. This review found, among other things, a systems problem that was overstating the number of unmatched differences. In April 2008, the Ministry implemented the first part of a system change to correct these overstatements, which reduced the number of false mismatches by 35%. Mainly because of this system improvement, the Ministry reported that, as of August 2008, the backlog of unmatched cases with Citizenship and Immigration Canada stood at 102,000—down by some 48,000 from the backlog of over 150,000 cases we noted in our *2006 Annual Report*. The Ministry expects additional system changes scheduled for implementation later in fall 2008 to further reduce the number of false mismatches.

The Ministry also hired a consultant to analyze its business processes for validating documents and assessing eligibility. The consultant's report presented several options for improving the health-card registration process and outlined a 17-point action plan for implementing the recommended option. At the time of our follow-up, the Ministry was studying these proposals.

With respect to expanding the scope of the electronic document validation program with Citizenship and Immigration Canada (CIC) to include other commonly used citizenship documents, the Ministry informed us that this proposal has been discussed with CIC. While CIC was not able to consider this item at this time, owing to other commitments, it remains open to considering this proposal in the future. The Ministry intends to follow up on this matter in 2009 in conjunction with the extension of the current Ministry/CIC agreement. The Ministry continues to have discussions with Passport Canada about a number of mutual business interests, and sharing of information will be discussed when business requirements are reconfirmed as a result of the transfer of services to ServiceOntario.

With respect to application processing issues, the Ministry hired another consulting firm to complete a risk assessment on the systems and procedures used in the health-card registration and verification processes. The consultant's report made 16 recommendations to address those risks the consultant concluded were not yet effectively mitigated. The recommendations included segregating incompatible functions and improving training practices and staff monitoring. As well, the Ministry should consider streaming transactions by type so that routine transactions, such as renewals and information changes, could be processed by less experienced staff while complex transactions could be scrutinized carefully by more senior staff. The Ministry was reviewing the feasibility and assessing the costs and benefits of these recommendations when the delivery of Health Card Registration services was transferred to ServiceOntario in April 2008. Because several of the recommendations relate to processes that are now being managed by the Ministry of Government Services, at the time of our follow-up, it was not known how many of the consultant's recommendations would eventually be implemented.

With respect to our recommendation to improve controls over its arrangements with agencies that assist homeless individuals, we were advised that the Ministry believes the risks in this area are minimal and that tighter controls would therefore not provide sufficient benefits to justify their costs.

In its original response to our *2006 Annual Report*, the Ministry indicated it would review the requirements that would allow for the validation of the billing number for physicians who sign the photo and signature exemption forms. We understand that the Ministry continues to assess the results of that review.

Protection of Personal Health Records

Recommendation 4

To better protect confidential personal health records from unauthorized access and data tampering, the Ministry of Health and Long-Term Care should:

- *ensure that proper approvals are obtained before establishing or changing user-group access profiles;*

- *enforce the requirement for periodic reviews for unwarranted system access at the district offices;*
- *strengthen the effectiveness of the existing security review process and monitoring tools;*
- *implement more rigorous security features to control access to the Claims Correction System; and*
- *restrict security administration duties to qualified staff.*

Current Status

The Ministry informed us that, around the time of our *2006 Annual Report*, it put additional controls in place to make managers more accountable for the review and maintenance of their staff's system-access rights. In July 2006, it also initiated a more thorough review of its access-control policies and procedures. The report resulting from this review, completed in May 2007, included a number of recommendations for improving access controls, such as improving the overall governance framework, developing asset classifications, establishing standards for such activities as the packaging and transmission of confidential data, improving procedures to ensure compliance with privacy legislation, and improving compliance reporting to management. The Ministry informed us that the highest priority recommendations are scheduled to be implemented by the fall of 2008.

HEALTH-CARE PROVIDERS

Provider Monitoring and Control

Recommendation 5

To help reduce the risk of inappropriate billing from health-care providers and to identify and recover overpayments from such cases, the Ministry of Health and Long-Term Care should implement an effective audit process as soon as possible.

Current Status

The Ministry advised us that it has introduced a revised physician audit process, and that legislative changes required to implement these revisions were passed in fall 2007. The new audit process, which we were informed has the support of the Ontario Medical Association (OMA), includes four components: education, payment review, review by a new board, and an appeal process. The new process places primary emphasis on educating medical practitioners to follow correct billing practices in the first place, and provides new mechanisms for practitioners to respond to ministry concerns about their billings.

A new Physician Payment Review Board independent of the Ministry is being established to conduct hearings to give both a physician and the Ministry the opportunity to resolve a claims dispute. The board will have from 26 to 40 members, 10 to 15 of whom will be physicians nominated by the OMA, 10 to 15 physicians nominated by the Ministry, and six to 10 members of the public. A new Joint Committee on the Schedule of Benefits has also been established. This committee of physicians—half of whom are OMA members—will provide, upon written request from either the Ministry or a physician, interpretations of specific provisions of the schedule of benefits. It will also have the authority to publish, maintain, and amend a list of circumstances under which the Ministry may adjust physician claims.

Educational activities with respect to the new process have been ongoing. For example, the Ministry and the OMA now jointly issue interpretive bulletins providing general advice and guidance to physicians on specific billing practices. The Ministry informed us that it has distributed 18,000 individual billing profiles to physicians as part of its efforts to provide one-on-one education. Appointments to the new Joint Committee on the Schedule of Benefits were made in May 2008. However, appointments to the new Physician Payment Review Board had not yet been made at the time of our follow-up, although positions had been advertised and some applications were being processed. Until these appointments are made, the arrangements that were in place at the time of our 2006 audit—with the Transitional Physician Audit Panel in place to act as a temporary appeal body—remain in effect.

Provider Registration, and Provider Information Updates

Recommendation 6

To ensure that medical claims are paid only to licensed providers and that the public is protected, the Ministry of Health and Long-Term Care should work more closely with all professional governing bodies to ensure that all provider records are updated in a timely manner.

Current Status

The Ministry advised us that it has established an enhanced data feed from the College of Physicians and Surgeons of Ontario (CPSO), which we understand now includes all physician licence expirations, not just those resulting from suspensions. The CPSO has been sending this enhanced data feed to the Ministry on a weekly basis since early September 2006.

Protection of Provider Records

Recommendation 7

To better protect confidential provider records from unauthorized access and data tampering, the Ministry of Health and Long-Term Care should:

- *develop proper documentation for all user-group profiles and maintain all system-access approvals to ensure that all access rights are maintained on a need-to-know basis; and*
- *enforce regular review of access privileges to the Provider Registry System so that only necessary privileges are maintained.*

Current Status

The Ministry informed us that, in June 2006, it developed a database to capture all authorization information regarding access to the Provider Registry System. Reports containing all of this information are now produced quarterly for management review to ensure the ongoing eligibility of authorized profiles and to help in the identification of required updates to the approved authorization levels. Also, as indicated earlier under Recommendation 4, the Ministry initiated a review of its access control policies in July 2006. This review covered access to both the Client Registry System and the Provider Registry System. The Ministry informed us that the recommendations pertaining to the Provider Registry System have been implemented.

MEDICAL CLAIMS PROCESSING

Recommendation 8

To help ensure that all valid medical claims are processed accurately, the Ministry of Health and Long-Term Care should:

- *implement all new medical rules and corrections in a timely manner;*
- *develop guidelines and procedures to assist district staff in making consistent and appropriate decisions on overriding rejected medical claims, and review a sample of overridden transactions on an ongoing basis to ensure consistency and compliance with the guidelines developed;*
- *establish procedures to reconcile the number and dollar amounts of paper claims; and*
- *strengthen the security controls over the data entry system for paper claims to ensure that system access is appropriately restricted.*

Current Status

With respect to the implementation of medical rules, the Ministry indicated that the most recently negotiated Physician Services Agreement was very complex and has challenged the aging architecture of the claims payment system. In June 2007, it completed a feasibility study identifying technical solutions to improve the claims system's ability to apply medical rules by introducing a business rules management system (BRMS). Although the potential benefits of a BRMS include a faster response to changing business requirements—which could address our concern about the timeliness of the implementation of new medical rules—the feasibility study also cautions that BRMS technology is at an early stage, with no agreed-upon best practices for designing the rule sets that would govern the resulting system. Accordingly, the Ministry is still reviewing this study to determine next steps. It has also indicated that in future negotiations with physicians it will devote attention to ensuring that there is sufficient technical capacity to support the implementation of the negotiated elements of the agreement.

With respect to the processes for overriding rejected claims, the Ministry indicated it has been updating its manuals and guidelines to inform staff of the proper procedures for overriding rejected claims, and that more training sessions for claims assessment staff and more regular monitoring by program managers are being instituted.

The Ministry further provided us with a description of planned system changes to address our findings regarding reconciliations and security controls over paper claims. The Ministry plans to implement a new paper claims process, along with systems changes to allow for three new reconciliations that will enhance processing completeness and accuracy: a reconciliation of the number of paper claims processed in a batch, a reconciliation of the total dollar value of paper claims processed within a batch, and a reconciliation of the fees claimed with those paid. No implementation date has yet been established for this project, and the Ministry informed us that this timeline may be affected by pending negotiations with the OMA.

Chapter 4

Section

4.09 Ontario Power Generation—Acquisition of Goods and Services

Follow-up on VFM Section 3.09, *2006 Annual Report*

Background

As part of the reorganization of Ontario Hydro, Ontario Power Generation (OPG) was created under the *Electricity Act, 1998* and commenced operations on April 1, 1999. The objective of OPG, which is wholly owned by the province of Ontario, is to own and operate generation facilities to provide electricity in Ontario. In 2007, OPG had a generating capacity of approximately 22,000 megawatts of electricity, which accounted for approximately 70% of the electricity produced in Ontario. OPG generates electricity from three operating nuclear stations, five fossil-fuelled stations, 64 hydroelectric stations, and three wind-power facilities. During 2007, OPG spent $3 billion ($2.5 billion in 2005) on operations, maintenance, and administration.

Included in OPG's total expenditures are annual purchases of goods and services amounting to approximately $1 billion. Most of this amount is for goods and services procured through the general purchasing system. Such procurement is to be made in one of three ways—through master service agreements with selected vendors, a competitive procurement process, or, when justified, single sourcing. The remaining purchases, which amounted to $56 million for the 2007 calendar year ($61 million in 2005), are acquired by OPG staff using corporate credit cards.

In our *2006 Annual Report*, we concluded that, although OPG had sound policies in place for acquiring goods and services and controlling employee expenses, in many respects its systems and procedures for ensuring compliance with those policies were not adequate. Specifically, there was often insufficient evidence on file to demonstrate that goods and services were acquired with due regard for value for money. Also, although purchases requiring the competitive selection of vendors were generally conducted appropriately in accordance with OPG's policies, we had concerns with other purchases, such as those arranged through master service agreements, which do not require competitive selection. Some of our particular concerns in 2006 were as follows:

- Most of the master service agreements that OPG established with vendors and that we reviewed were made without an open or competitive process. Instead, OPG practice was to establish master service agreements with those vendors that had carried out business with OPG for some period of time. As well, we found that most of the master service agreements did not have fixed rates for specific services, typically a key benefit of such agreements.

- The single-source purchases we reviewed, of such items as temporary staff, equipment, and consulting services, ranged from $110,000 to $2.6 million. We noted that the explanations for single sourcing such large purchases either were not documented or were inadequate to justify not carrying out a competitive process.
- In the five years that OPG had outsourced its information technology services, OPG had not audited the service provider with respect to its provision of services, setting of fees, and performance reporting, even though the contract allowed for this. Given that this contract is worth approximately $1 billion over a 10-year period, such periodic audits would be a sound business practice to provide assurance that the contractor is furnishing accurate and reliable data to support its fees and performance.
- We noted in our review of travel and purchasing credit-card payments numerous examples where supporting documentation was inadequate for managers to properly assess what was purchased and how much was paid for each item. As well, managers may be the only ones reviewing these transactions, which makes effective supervisory review a critical internal control for ensuring that such purchases are appropriate and compliant with policy. However, these reviews were often not completed satisfactorily.

We made a number of recommendations for improvement and received commitments from Ontario Power Generation that it would take action to respond to the issues raised.

Current Status of Recommendations

According to information received from Ontario Power Generation, a number of significant internal-control improvements have been made to address the recommendations in our *2006 Annual Report*. The Current Status of actions taken on each of our recommendations is as follows.

PURCHASE OF GOODS AND SERVICES

Master Service Agreements

Recommendation 1

To maximize cost savings through the use of master service agreements, Ontario Power Generation should:

- *consider establishing master service agreements through a competitive process;*
- *limit agreements to a defined time period, with set terms and conditions, including pricing;*
- *consider implementing a second-stage competition among vendors, especially for significant purchases where there is more than one vendor with a master service agreement that can provide the required goods and services; and*
- *maintain information on all the agreements from the generating plants and the corporate office in a central registry available to all corporate users.*

Current Status

OPG informed us that it was using a competitive process for all new or renewed master service agreements when there is more than one supplier. These agreements are to include agreed-upon terms such as standards of care, insurance, credit provision, events of default, defined contract period, and termination. The scope of work for services or the specifications for goods, as well as any special pricing terms, completion schedule, quantity, and other such details are agreed to and outlined in a separate transaction document at the time of each purchase. OPG also implemented a guideline in its procurement-activities policy that defines when a second-stage competitive process must be used.

To manage and oversee master service agreements better, OPG established a central registry to which each generating plant and the corporate procurement section is to submit information on all the current and new agreements. This should help reduce the risk of having a number of agreements with the same vendor for similar services at different prices, terms, and conditions.

Needs Justification

Recommendation 2

To ensure that goods and services are acquired in the most economical manner, Ontario Power Generation should, before purchasing goods and services, conduct and document a proper evaluation of its needs and available resources, including an assessment of corporate-staff-resource alternatives before contracting externally for services.

Current Status

OPG informed us that it is the responsibility of the person who requests the purchase to ensure that it is properly justified. OPG uses a “scope of work” document as part of the request-for-quotes and request-for-proposals process. This document includes a description of the need that the good or service to be purchased is to meet and contains specific requirements for potential vendors. OPG uses this document to help it develop evaluation criteria to assess which vendor proposal will best meet OPG’s needs.

OPG informed us that, to assess whether it might already have the internal staff resources to meet a particular need, it reviews current staffing levels against work requirements as part of its annual business-planning process. Each business unit plans for the need to supplement regular employee resources to satisfy periods of peak demand. OPG believes that it is more cost-effective to hire external contractors for peak-period demand.

Competitive Selection of Suppliers

Recommendation 3

To ensure that goods and services are acquired at the best available price and that all qualified vendors have an opportunity to compete for Ontario Power Generation business, Ontario Power Generation should minimize its single-source purchases, and, where it deems such purchases are necessary, ensure that the reasons for, and costs of, all single-sourcing arrangements are adequately justified and documented.

Current Status

OPG implemented a new guideline that became effective in July 2007 requiring that the requisitioning department justify and document all single-source purchases over $10,000. This process is then reviewed by supply-chain departments, which either propose alternative purchasing strategies or give approval to proceed. Examples of justifiable single-source situations include:

- unforeseen emergencies where the time required for a competitive process would adversely impact production;
- a declared generation threat where a rapid single-source purchase would prevent or reduce the duration of a forced outage;
- a requirement that goods be purchased from the original equipment manufacturer in order to meet specific or technical requirements; and
- a purchase that is required in order to honour guarantees or maintain warranties.

Procurement Management and Control

Recommendation 4

To better manage and control the procurement of goods and services, Ontario Power Generation should:

- *ensure that it has, for each major procurement, a formal signed contract or other documentation that defines the responsibilities of both parties, including the price and specific deliverables to be provided;*
- *establish monitoring procedures to ensure that payments for goods and services do not exceed contract prices; and*
- *ensure that any changes to the original contract terms and conditions are adequately justified and properly documented.*

Current Status

OPG informed us that it has put procedures in place to ensure that all purchases are supported by a signed contract or purchase order. To help OPG effectively monitor suppliers to ensure that they meet their obligations, the contracts or purchase orders must include the terms and conditions, price, and deliverables to be provided by the supplier. In this regard, all purchases over $1 million require a formal contract while lesser amounts require only a purchase order. In addition, OPG informed us that the person approving the invoice is responsible for verifying the rate on the invoice against the negotiated rate in the agreement or purchase order before approving and paying the invoice. OPG has also implemented procedures to monitor increases to contract prices. If contract prices are exceeded, OPG now requires that the incremental cost be reviewed prior to issuing a new or revised purchase order to determine if a competitive or single-sourcing process should be followed for the additional cost.

OPG informed us that effective July 2007, it implemented new purchase-order documentation procedures requiring that any changes to the original contract prices and conditions be justified, documented, and included in the purchase-order file. This should help OPG to properly ensure that suppliers provide the stated deliverables according to the signed agreements and amendments.

Vendor Performance Evaluations

Recommendation 5

To help ensure that the proposed central vendor registry fulfills its objectives and that prior experience with vendors is taken into consideration in vendor selection, Ontario Power Generation should implement procedures to ensure that vendors are evaluated upon completion of the procurement process and before awarding any subsequent contracts.

Current Status

OPG informed us that to ensure that evaluations are completed on a consistent basis, it has developed a supplier-performance monitoring and scorecard procedure to evaluate vendors. Information so collected is kept on a central registry of vendor performance evaluations. This allows OPG staff to exchange feedback with the vendors, identify performance improvement areas, and develop plans with vendors to improve performance. The system also helps OPG assess its previous experiences with a vendor during the supplier-selection process for new contracts. In evaluating supplier performance, OPG now considers the following areas: environment, health, and safety; price and cost; schedule and delivery; quality performance; technical performance; responsiveness; and management of the supplier.

The frequency of an evaluation will depend on whether a vendor is a company-wide or a strategic supplier. Evaluations must be completed at least once a year for company-wide suppliers—those that provide services to more than one business unit—and for strategic suppliers with a master service agreement for more than $5 million over the life of the agreement. For other suppliers, each business unit determines the frequency of evaluation.

OUTSOURCED INFORMATION TECHNOLOGY SERVICES

Recommendation 6

To ensure that it receives value for money from its information technology outsourcing initiative, Ontario Power Generation should:

- *implement a periodic audit process to verify the accuracy and reliability of the information submitted by the vendor with respect to costs and performance; and*
- *consider utilizing external consulting expertise to assist with its unit-price negotiations for the 2005–10 portion of the information technology service contract.*

Current Status

In June 2007, OPG engaged an external third party to help conduct an internal audit review to determine the accuracy and reliability of the information provided by the vendor of outsourced information technology services with respect to the two year "gain-share" phase of the contract and the performance standards agreement. The gain-share agreement stipulated that any cost savings realized during the years 2003 to 2005 be split between OPG and the vendor, and then be locked in for the remainder of the agreement through a fixed effective price. The audit recommended that OPG and the vendor should make minor adjustments to the gain-share costs and incentives. In addition, OPG informed us that it will carry out other audits on an ongoing basis to review items such as performance reporting to meet OPG audit and regulatory requirements.

In December 2006, OPG hired a consultant to assist in the unit-price negotiations for the portion of the information technology contract covering the years 2005 to 2010. OPG informed us that negotiations with the service provider concluded that unit pricing could not be implemented as originally contemplated in the agreement, which was to be negotiated on the basis of service volumes and the service provider's costs. However, unit pricing incorporating market-based pricing remains one of OPG's goals for this contract. OPG is working with the service provider to collect the relevant volume data needed to support the negotiation of unit pricing. This approach has been incorporated into a strategy that OPG informed us is being considered to renew or replace the existing outsourcing agreement.

OPG advised us that, as a result, the current pricing model is based on the effective price established as of January 1, 2005, which reflects the results of the gain-share phase of the contract. Costs for growth in services are determined through an open-book process and agreed to by both parties as in previous phases of the contract. The review carried out by the consultant determined that this process was cost-effective and provided OPG with value for money.

CORPORATE CREDIT-CARD PURCHASES

Submission of Supporting Documents

Recommendation 7

To help ensure that only valid expenditures are charged to corporate credit cards and that such cards are used in accordance with its policies, Ontario Power Generation should implement more effective procedures to ensure that cardholders submit the necessary documentation for travel- and purchasing-card expenses and that supervisory oversight and approval controls are working effectively.

Current Status

OPG advised us that, after our 2006 audit, it established a process to locate all missing receipts for travel and goods charged to credit cards. In addition, OPG informed us that it implemented a new control whereby the expense reports will no longer be approved unless receipts are attached electronically. OPG has also established an additional level of audit on a sample basis to verify that receipts are attached to expense reports.

If no receipts are submitted within 60 days for purchases on corporate credit cards, follow-up action is taken with the cardholder. If the cardholder does not provide the required receipts, the purchase card will be suspended. OPG informed us that to help ensure that only valid expenditures are charged to the corporate purchasing card, it has blocked purchases through the Merchant Category Code for expenditures, such as meals and hotels, that should be charged only to corporate travel cards. OPG was also in the process of implementing a policy requiring two signatures for all exceptions to the blocked Merchant Category Codes.

Minor Fixed Assets

Recommendation 8

To help ensure that all minor fixed assets are properly recorded and safeguarded, Ontario Power Generation should:

- *review corporate credit-card purchases for any minor fixed assets and follow up to confirm that such assets are properly reported to the asset-processing centre; and*
- *reinforce the policy requirements that cardholders and their managers are accountable for the proper reporting and safeguarding of minor fixed assets.*

Current Status

After our audit in 2006, OPG changed its policy with respect to recording minor asset purchases in its fixed-asset system. Originally, all asset purchases over $2,000 were to be recorded and tracked, but the current policy requires that only purchases over $25,000 are to be recorded. OPG informed us that the corporate credit cards used by employees have a transaction limit of $10,000, which is lower than the threshold for recording items in the fixed-asset system. Accordingly, there should be no items purchased on the corporate credit cards that need to be captured in the fixed-asset system. However, it is still the manager's responsibility to safeguard minor fixed assets up to the capitalization threshold.

In addition, to ensure that low-value items below the minor fixed-asset threshold are adequately safeguarded, OPG's internal audit branch will perform an annual physical existence test on a sample of such items purchased with corporate credit cards that are below OPG capitalization threshold of $25,000.

Employee-recognition and Gift Purchases

Recommendation 9

To help ensure that employee-recognition practices are consistent among business units, are reasonable, and comply with income-tax requirements, Ontario Power Generation should:

- *provide corporate-wide guidance on employee-recognition and gift purchasing; and*
- *establish procedures to ensure that all employee benefits are reported to the payroll department as required and implement procedures to monitor compliance.*

Current Status

OPG informed us that changes were made to its business travel and expense procedure in June 2007 to address employee recognition and other events. The new procedure requires that recognition programs be approved in advance by the OPG Executive Committee to ensure that they are consistent across OPG and are not excessive. The new procedure further requires that managers and supervisors review specific expenses for eligibility and compliance with policy, and determine any related income-tax implications. In addition, employee-recognition awards with any monetary value are not permitted, except for designated service-recognition gifts and recognition based on pre-approved annual plans.

The revised business travel and expense procedure requires that managers and supervisors approving a taxable benefit inform the Human Resources Compensation and Benefits Department in writing to ensure that a taxable benefit is properly recorded. Canadian income-tax rules consider recognition in the form of cash or "near cash" to be a taxable benefit. Non-cash awards are a taxable benefit where an employee receives more than two awards in a year or the value of the awards exceeds $500. To ensure that taxable recognition awards are not given to employees, OPG now requires that recognition awards be limited in number and value, in keeping with income-tax requirements. Furthermore, OPG decided that recognition awards can no longer be in the form of gift cards or other "near cash" items.

Monitoring Card Usage

Recommendation 10

To more effectively manage the use of corporate credit cards, Ontario Power Generation (OPG) should:

- *perform periodic audits to identify any patterns of improper cardholder transactions and lack of compliance with corporate policy;*
- *establish a more rigorous monitoring program to verify that each type of credit card is being used appropriately; and*
- *periodically review purchasing-card usage to reduce OPG's financial risk, cancel unused cards, and adjust credit limits to appropriate spending levels.*

Current Status

With respect to a monitoring program for corporate credit-card use, OPG indicated that it has implemented several processes to identify and correct improper usage of the cards and non-compliance with corporate policy. The accounts payable department samples business-expense reports on a daily basis for missing receipts and potential policy violations. In addition, divisional controllers will, at least quarterly, perform a limited review of business and travel expenses and corporate purchasing-card expenditures and provide a report to business unit managers identifying unusual or potential non-compliance cases requiring corrective action. This is in addition to an annual audit by the internal audit department that is scheduled to be completed by December 2008 to determine compliance with corporate policy and identify improper cardholder transactions. For the corporate purchasing card, OPG has also blocked purchases for certain Merchant Category Codes. These processes are in addition to the requirement for line managers to ensure the appropriateness of business expenditures.

To reduce its financial risk for purchasing-card use, OPG informed us that it has implemented a new control procedure to identify unused credit cards and cardholders that normally spend significantly below their approved credit limits. Divisional controllers are to review these cases on a semi-annual basis to determine whether the purchasing card should either be cancelled or have its credit limit reduced to reflect more closely the cardholder's actual spending level.

Chapter 4
Section
4.10

Ontario Realty Corporation—Real Estate and Accommodation Services

Follow-up on VFM Section 3.10, *2006 Annual Report*

Background

The Ontario Realty Corporation, a Crown corporation, provides services related to real estate, property, and project management to most ministries and agencies of the government of Ontario. Responsibility for the cost-effective management of real property and accommodations is shared by the Corporation with the Ministry of Energy and Infrastructure (Ministry)—formerly the Ministry of Public Infrastructure Renewal—and its client ministries and agencies. The Corporation manages one of Canada's largest real-estate portfolios, including more than 81,000 acres of vacant land and 6,000 buildings comprising more than 48 million square feet of space. Eighty percent of the portfolio is owned by the government of Ontario; the rest is leased. To offset the expenses it incurs in managing the portfolio and looking after the accommodation needs of its clients, the Corporation needs annual revenues of nearly $600 million. The vast majority of these revenues comes from its clients in the form of rent income.

Our audit in 2006 concluded that the Corporation had recently made a number of improvements in its systems and procedures for leasing, buying, and selling property; and for hiring and monitoring providers of building-management services. However, we found that it needed to continue to work with the Ministry and its client ministries and agencies to ensure that:

- all managed space is being efficiently used;
- properties are being maintained through appropriate investments in the life-cycle repair and maintenance of buildings; and
- its management-information systems provide decision-makers with sufficient reliable information.

Some of our more significant observations were as follows:

- The Ministry had identified concerns about the processes for dealing with surplus and underutilized property, which our work confirmed. We noted that although the province gave its approval in 1999 for the Corporation to sell 330 properties, as of 2006, the Corporation had disposed of fewer than half of them.
- The Corporation needed to improve its systems and procedures for identifying and dealing with surplus or underutilized properties.

- Better controls were needed to record and track potential ministry recoveries from conditional property sales and to monitor subsequent sales of former government properties for large resale profits. As a result of our inquiries, the Corporation recovered approximately $265,000 that was still owing to it from a property sale and that had been available to it since April 2004. As well, the Corporation had instituted additional monitoring procedures after we noted that one property it had sold for $2.6 million was resold seven months later for $4.2 million.
- In handling requests for new accommodations that could not be met by the existing inventory of owned space, the Corporation generally leased space without assessing the cost-effectiveness of alternatives, such as construction, lease-buy, outright purchase, or relocation.
- The Corporation did not have adequate information or assurance that space was being used efficiently by its clients. As well, the Corporation's real-estate database contained many errors in the current status of properties, which would affect the integrity of data used for assessing accommodation needs and tracking property use.
- More than 40% of the buildings the Corporation manages were at least 40 years old, and it rated 148 buildings as being in poor to defective condition. It also estimated that deferred costs for repairing, renewing, and modernizing provincially owned buildings stood at $382 million as of March 31, 2006.

We made a number of recommendations for improvements and received commitments from the Corporation that it would take action to address our concerns.

Current Status of Recommendations

According to information received from the Corporation, progress has been made in implementing most of our recommendations with significant progress being made on several. However, some areas, including information systems and deferred maintenance of over $400 million, will take more time and additional funding to address fully.

The current status of action taken on each of our recommendations is as follows.

REVIEW BY THE (FORMER) MINISTRY OF PUBLIC INFRASTRUCTURE RENEWAL

Recommendation 1

The Ontario Realty Corporation should establish timetables for implementing any changes necessary to its operations to support recent government initiatives aimed at improving the strategic management and rationalization of real-estate assets, including developing plans for the future uses and dispositions of individual properties and implementing those plans.

Current Status

The Corporation advised us that it was continuing to work with the government through the Ministry of Energy and Infrastructure (Ministry) to expedite sales of surplus property. Multi-year sales plans had been established for disposing of surplus and high-value properties and, beginning with the 2008/09 fiscal year, sales revenue targets had been increased substantially. However, more recently, reductions to those sales revenue targets were made to reflect delays in obtaining approvals, renewed interest by ministries in some properties, and the downturn in the market.

In May 2006, the Corporation prepared a Strategic Asset Management Plan Framework for classifying individual provincially owned property assets. The framework defines properties and buildings by their strategic importance, such as whether the property is a core asset that is to be kept and maintained over the long term or whether it is a non-core asset that is no longer needed by the province for program purposes or government initiatives, and is to be disposed of in the long term. There are other subcategories indicating whether the property is on hold because it is no longer functional but cannot be disposed of owing to environmental or heritage considerations or special circumstances; is in transition because its long-term use is under study; is to be disposed of by sale or transfer; or has structures that need to be demolished to improve the saleability of the property. We were informed by the Corporation that the classification of all owned properties in the portfolio was completed by March 31, 2008.

CONTROLS OVER PROPERTY SALES AND ACQUISITIONS

Recommendation 2

In order to help ensure that amounts owing from property sales are properly accounted for and obtained, and to help ensure ongoing monitoring for effectiveness of its sales procedures, the Ontario Realty Corporation should:

- *establish controls to ensure that receivables are recorded and tracked for any potential recoveries from conditions of property sales; and*
- *track and identify any resale of properties sold for significantly higher amounts shortly after their sale and investigate how such situations could have occurred.*

In addition, the Corporation should consider the feasibility of requiring safeguards in its sales agreements that would permit it to share in any large profits from subsequent sales of properties.

Current Status

The Corporation informed us that it has enhanced its controls over any receivables resulting from property sales. New protocols for the Corporation's finance department require that an accounts receivable amount be established in the accounting system for any potential return of amounts held in escrow or for other receivables possible after the closing of the sale. The Finance Department conducts a monthly reconciliation and review to monitor the status of any outstanding receivables.

At the time of our follow-up, the Corporation's internal audit staff had responsibility for monitoring whether properties sold recently by the Corporation were subsequently resold by the new owners in the following 18 months. Where such resales have occurred and the sale prices are higher than the price originally paid to the Corporation, the internal auditors are required to investigate and report on the circumstances and the reasons for the higher property value.

With respect to our recommendation to require safeguards in all its sales agreements to permit it to share in any large profits from subsequent sales of properties, the Corporation continues to include this requirement in sales to municipalities, conservation authorities, and other government organizations. However, it believes that a restrictive clause in its property-sales agreements would significantly limit the attractiveness and prices of property sold to the public. We were informed that, where feasible, the Corporation will attempt to participate or partner with the private sector in joint ventures or in the marketing of property for sale to enhance sale revenues, but the existing portfolio offers few opportunities for such arrangements.

ACCOMMODATION PLANNING AND UTILIZATION

Recommendation 3

To enable it to help the government achieve additional accommodation expenditure savings in the real-estate portfolio, the Ontario Realty Corporation should work with the (former) Ministry of Public Infrastructure Renewal and client ministries and agencies to establish requirements for:

- *carrying out long-term accommodation planning to allow for exploration of options beyond leasing, such as construction, lease-buy, outright* *purchasing, and relocation, to meet space needs at lower costs;*

- *exploring co-location and sharing opportunities with other ministries; and*
- *having ministries periodically report their present and future expected staff size, as well as their existing space utilization, to the Corporation to enable a more informed assessment of the use of existing space.*

Current Status

We were informed that the Corporation's Account Teams have been working with client ministries and agencies to identify long-term accommodation requirements. In addition, a recent large co-location project in Ottawa was completed in 2007, and the Corporation was working on a Toronto Master Plan for Accommodations to explore long-term possibilities for satisfying office-space requirements. A large office building in downtown Toronto was also purchased in 2007, and the Corporation was exploring options for its use when the current tenants vacate it in 2010. The Corporation informed us that it does consider options other than leasing for satisfying large accommodation requests.

Since 2007, the Corporation has been using the corporate WinData System to maintain information about the number of full-time equivalent staff who are located in government premises. However, the Corporation advised us that the information was used primarily to corroborate information received from its client ministries and not to monitor the utilization of existing space.

LEASING

Recommendation 4

To help ensure that leases negotiated by the Ontario Realty Corporation, both for government-occupied space and for government-owned space leased to others, reflects the best rates, the Corporation should:

- *resolve in a timely manner all remaining leases in overhold; and*
- *obtain the necessary policy direction from the (former) Ministry of Public Infrastructure Renewal to allow it to negotiate appropriate rents—at market rates where possible—for non-Ontario-government tenants in government buildings.*

Current Status

For government-occupied space leased from private-sector landlords, the Corporation gave us a current list of leases that had expired and therefore were in "overhold." Fewer than 1% of all leased properties were in overhold but these were small spaces or had been in overhold for only a short time. Some were being negotiated at the time or there were other extenuating circumstances.

For non-Ontario-government tenants in government buildings, we were informed that the Corporation had studied options, including rental rates, for daycare centres in government properties, and had sent those options to the Ministry in May 2008 for its consideration. Until it receives new directions from the government for the handling of government-owned space leased to others, no changes will be made to existing leases in overhold.

BUILDINGS AND LAND MANAGEMENT

Recommendation 5

In order to help ensure that all Ontario Realty Corporation staff and service providers managing buildings perform their management and reporting duties appropriately, consistently, and at a high level, the Corporation should review building-management practices in all regions and ensure that best practices are being consistently adopted.

Current Status

The Corporation currently has two large contracts and several smaller ones for the management of its buildings and properties. We were informed that the Corporation will competitively re-tender building and property management for all properties in Ontario. The new contracts are expected to begin in October 2009, and the Corporation stated that it intends to include a performance-management framework that will reflect current industry best practices.

DEFERRED MAINTENANCE ON GOVERNMENT-OWNED AND -OCCUPIED BUILDINGS

Recommendation 6

To enable the Ontario Realty Corporation to properly maintain government-owned buildings in accordance with life-cycle costing for capital repair requirements and to avoid any longer-term impact resulting from deferring needed preventative or preservation repairs, the Corporation should work with its clients and the (former) Ministry of Public Infrastructure Renewal to establish stable and appropriate levels of funding for maintaining government-owned buildings.

Current Status

The Corporation informed us that for the last three years, the government, through its Five-year Infrastructure Investment Plan, allocated $148 million annually for capital repairs. Actual spending over the same period averaged $141 million and was about 32% higher than in the previous three-year period. However, we were informed that the Corporation estimates that it needs between $148 million and $218 million a year to maintain the core buildings in the portfolio. This amount does not take into account other significant funding requirements, such as the accumulated unfunded deferred maintenance from prior years, the maintaining of non-core property assets, and additional costs for preserving heritage structures, all of which are currently funded from the amounts allocated to core buildings.

As part of its 2008/09 Asset Management Plan, the Corporation estimates that the value of deferred maintenance for its managed properties was between $400 million and $500 million (up from $382 million in 2006).

We were also informed that the Corporation has taken the lead in working with other jurisdictions across Canada to establish a Facility Condition Index that sets a standard calculation method and creates a rating system to determine the condition of buildings. The Corporation expects that once the Index is in place, all provinces will use the same criteria for measuring and reporting on building conditions to allow for comparisons and to help establish funding levels and benchmarks.

REAL-ESTATE INFORMATION SYSTEMS

Recommendation 7

In order to help ensure that the Ontario Realty Corporation is capable of providing reliable and complete information on the province's real-estate holdings and activities, and to support strategic decision-making on real estate and accommodation decisions, the Corporation should:

- *investigate the causes of data integrity errors on its RealSuite information system and implement quality control procedures to correct existing errors, and prevent and detect any recurrence in future; and*
- *continue its efforts to secure the co-operation of other ministries and agencies with real-estate holdings to permit the development and sharing of a complete inventory of all government-owned and -controlled real estate.*

Current Status

We were informed that the Corporation had completed the first phase of its project to improve data integrity, which was to reconcile the number of properties listed in its RealSuite system and its accounting system's cost centres. Future phases include reviewing data-input controls and reconciling its accounting system's cost centres to its asset-accounting processes for billings and expense allocation. The Corporation's Internal Auditor also informed us of plans to complete a data-integrity audit of RealSuite by December 2008.

A new project to develop a complete inventory of government-owned and -controlled property assets has begun. In September 2006, the Corporation introduced a system called the Provincial Real

Property System (PRPS), which will record property information from other ministries and agencies. Although substantial progress has been made by the Corporation in obtaining the information it needs from ministries and agencies to update the records in PRPS, we were told that the project has been hampered by incomplete records and the Corporation's inability to obtain and verify the required information.

PERFORMANCE MEASURES

Recommendation 8

The Ontario Realty Corporation should develop and report comprehensive and reliable performance indicators that would enable legislators, clients, and the public to properly assess its effectiveness in managing the province's real-estate portfolio and meeting accommodation requirements and objectives in an economical and efficient manner. Where possible, the Corporation's performance should be benchmarked to comparable private-sector and government property-management organizations in other jurisdictions.

Current Status

The Corporation has started to include customer-satisfaction and operating-cost performance measures in its annual reports. As well, for operational purposes, it has developed and is tracking more detailed property-management results indicators; however, this information has not been made available to the public, legislators, or the Corporation's clients.

OTHER MATTER

Procurement Practices for Capital Projects

Recommendation 9

In view of the concerns we raised in 2003, and of those raised by the Ontario Realty Corporation's internal auditors in 2005, regarding the use of unit-price contractors in place of established procurement procedures and competitive selection processes in hiring contractors for large construction projects, the Corporation should conduct a comprehensive review of its use of unit-price contractors, as well as of the policy framework that permits their use, to ensure the required open competitive procurement practices are not being circumvented.

Current Status

According to information we received, the Corporation has discontinued the practice of using unit-price contracting on jobs costing $100,000 or more, which is the upper limit for which these assignments are intended. The Corporation has directed that for projects exceeding this amount, competitive bids with fixed prices must be obtained.

Chapter 4
Section
4.11 School Boards—Acquisition of Goods and Services

Follow-up on VFM Section 3.11, *2006 Annual Report*

Background

Ontario's publicly funded elementary and secondary schools are administered by 72 school boards and 33 school authorities. According to the Ministry of Education (Ministry), total funding for public education in Ontario for the 2007/08 fiscal year was about $18.4 billion ($17.2 billion in 2005/06). While school boards spend the majority of their funding on salaries and benefits, they also spend several hundred million dollars on purchases of services, supplies, and equipment. Our audit in 2006 focused primarily on the acquisition of supplies and services and equipment and on contracted services and minor capital projects. Our audit excluded pupil transportation and capital expenditures for the construction of new schools. We also examined the policies and usage of corporate charge cards (purchasing cards).

In our *2006 Annual Report*, we concluded that the purchasing policies at the four school boards we audited (Durham District, Rainbow District, Thames Valley District, and York Catholic District) were adequate for promoting due regard for economy, and the boards were generally complying with their policies and procedures. In addition, all four boards were participating in purchasing consortia in an attempt to reduce the cost of goods and services. However, we did note areas where compliance could be improved. For instance:

- School boards were using some suppliers for significant purchases, as well as for ongoing minor capital projects, for a number of years without periodically obtaining competitive bids.
- Rather than publicly advertising their needs, school boards often invited a selected group of suppliers to bid. As a result, only one or two bids were received for some significant contracts.
- Payments continued to be made to suppliers where the purchase order had expired and/or the amount on the purchase order had been exceeded.

While the four school boards generally had adequate policies governing use of corporate charge cards (purchasing cards), we had a concern about the lack of clear policies with regard to the use of board funds for employee recognition and gift purchases. As well, we had concerns about certain meal and travel-related expenditures at one school board.

Current Status of Recommendations

On the basis of a review by the Ministry's Internal Audit Services of acquisitions, payments, and purchasing-card transactions made by the four school boards—along with information provided to us by the four school boards—we note that action is being taken on all of our recommendations, with substantial progress being made on most of them, primarily those dealing with the use of purchasing cards and the acquisition of services. Two boards still had substantially more purchasing cards outstanding than they required.

The current status of actions taken on each of our recommendations is as follows.

COMPETITIVE ACQUISITION, FAIR AND OPEN ACCESS, PURCHASING DEPARTMENT INVOLVEMENT, PURCHASE ORDERS, AND CONTINUOUS RELIANCE ON CONTRACTORS

Recommendation 1

To better ensure that goods and services are acquired with due regard to economy and that effective purchasing practices are followed consistently throughout the board, school boards, should:

- *ensure that the purchasing department is consulted on all major purchases;*
- *ensure that all goods and services are acquired competitively in accordance with board policies;*
- *use a publicly advertised competitive process for major purchases or where the possibility of a shortage of bidders may exist;*
- *limit the number of years that a contract can continue without requiring a new competitive acquisition process;*
- *not permit purchase order expiry dates and limits to be exceeded; and*
- *periodically obtain bids for ongoing routine services.*

Current Status

According to information provided by the school boards and the work performed by the Ministry's Internal Audit Services, significant progress had been made by the four school boards in ensuring that their purchasing departments are consulted on all major purchases, and goods and services are acquired competitively in accordance with board policies. Internal Audit Services found that all four boards required that purchases be made competitively in accordance with this recommendation. In particular, each of the four boards required that goods and services exceeding a specific threshold be acquired centrally through its purchasing department.

Internal Audit Services selected samples of purchases at each of the four boards to assess whether the boards were complying with their policies. They found that most of the purchases were made on a competitive basis and in accordance with the boards' policies. However, there were still some instances, primarily at one board, where the policies were not followed. For example, over several months, the board had made several small purchases of mechanical supplies and of photographic equipment from the same suppliers without obtaining quotes. Such purchases can be significant on a cumulative basis. The board needed to periodically review such purchases to determine if pricing is competitive and to provide opportunities for other suppliers to compete for board business.

SUPPORTING DOCUMENTATION

Recommendation 2

To help ensure that due regard for economy can be demonstrated for all purchasing decisions, school boards should prepare and retain appropriate documentation.

Current Status

According to information provided by school boards and the review conducted by the Ministry's Internal Audit Services, the boards have complied with this recommendation.

CONTROLS OVER PAYMENTS

Recommendation 3

To help protect against the risk of not receiving services paid for, school boards should prohibit unnecessary prepayment for services.

Current Status

In general, Internal Audit Services found that all four boards had sufficient controls in place to avoid overpayments to suppliers. Each board required approvals when invoices exceeded the original estimate or purchase order and no exceptions were noted in their testing. For the one school board where prepayment had been an issue, the prepayment related to photocopy services. Internal Audit Services confirmed that, at the time of its follow-up work, the board was paying for services after it received monthly invoices for services already rendered.

PURCHASING-CARD MANAGEMENT

Verification of Transactions

Recommendation 4

To help ensure that only valid school board expenditures are charged to purchasing cards, school boards should enforce the requirements that proper detailed receipts be submitted to support all card purchases and that managers follow up on any unusual expenditures.

Employee Recognition and Gift Purchases

Recommendation 5

To help ensure that gifts to recognize employees are appropriate and justified, school boards should have clear policies regarding the use of board funds for employee recognition and gift purchases.

Meal Expenditures Using Purchasing Cards, and Travel and Conference Expenditures Using Purchasing Cards

Recommendation 6

To help ensure that meal and travel expenses are appropriate, school boards should ensure that:

- *amounts claimed are reasonable;*
- *any personal expenses are not paid by the board; and*
- *the purchase of travel gift certificates is prohibited.*

Card Utilization

Recommendation 7

To help limit the risk of inappropriate expenditures being incurred on purchasing cards, school boards should:

- *review the number of purchasing cards that have been issued to staff; and*
- *cancel unnecessary cards.*

Current Status

With respect to Recommendations 4 through 7 contained in our *2006 Annual Report*, the Ministry issued a policy memorandum in December 2006 to all school boards regarding expenditure guidelines for both trustees and school board staff to address the following areas:

- use of corporate credit cards;
- travel, meals, and hospitality;
- advertising; and
- advocacy.

The purpose of these guidelines was to define a province-wide standard that each school board would use to develop its own specific policies in each area or to assess its existing policies and guidelines. The Ministry also expected that all school boards would make their policies available on their public websites by March 31, 2007. According to Internal Audit Services, the Ministry was reviewing the existing related policies of all boards for consistency with the standard.

In April 2007, the Standing Committee on Public Accounts (Committee) held a hearing to discuss our 2006 report with the Ministry and the four school boards audited. In May 2007, the Committee requested that the Ministry report to the Committee by July 15, 2007, on the boards that had not posted the appropriate policies on their websites as of June 30, 2007. At the same time, the Chair of the Committee also wrote to each school board in the province reinforcing the Ministry's requirement that board policies in these areas must be available for public scrutiny.

As of July 15, 2007, 56 of the 72 boards had posted their policies in all four areas on their websites. The Ministry has continued to monitor school board websites and, as of August 2008, 71 boards had posted their policies in all four areas.

In addition to the above, the current status of action taken on Recommendations 4 through 7 is as follows.

Recommendation 4

In our *2006 Annual Report*, we identified the risks associated with purchasing cards, including improper accounting, duplicate charges, and misuse by employees. Therefore, strict controls are needed to verify and approve transactions on monthly statements on a timely basis to ensure that payment is not made for goods and services that were not received.

According to the information provided by the school boards and the follow-up work performed by the Ministry's Internal Audit Services, all four school boards had followed this recommendation. They did note that one board needed to review its guidance to staff on the use of purchase cards for travel expenses to manage the risk of paying for the same expense twice: once through an expense claim and a second time when the card bill is paid.

Recommendation 5

Two of the four school boards indicated, and the Ministry's Internal Audit Services confirmed, that they had established policies on gifts or recognition, which clarified the circumstances under which gifts or acknowledgements are permitted. The other two had not.

Recommendation 6

The Ministry's Internal Audit Services tested a sample of expenses at the four school boards and found that the majority of expenses were in accordance with board policy. Documentation was properly completed to ensure that staff expenses qualified for reimbursement. Meal and travel expenses tested were also in accordance with policy.

Internal Audit Services also noted significant improvement at the one board identified in our *2006 Annual Report* as allowing certain questionable transactions. As of mid-2007, the finance department of that board began reviewing all purchasing-card statements on a monthly basis. When it finds exceptions to policy, it informs the principal or manager responsible for the employee of the reason for rejecting the expense and requests resolution. The memo is copied to the Director of Education and the Executive Superintendent of Business, and is maintained in a file that is provided to the board's external auditors at year end. As well, for all transactions greater than $500, the finance department re-sends the statement to the employee's supervisor for specific additional approval.

Recommendation 7

At the time of our original audit, one board had approximately 3,200 purchasing cards outstanding. As of the time of this year's follow-up, Internal Audit Services found that the board still had about 1,000 cards which, because they had little or no activity, should be investigated to determine if they need to be maintained. In this regard, at the time of the follow-up, the board had obtained activity reports from the bank and was in the process of contacting card holders to see if the cards were still needed.

At the time of this year's follow-up, another board had approximately 820 cards issued. Internal Audit Services found that 152 of these cards had been used to purchase $50 or less in one year. The school board was aware of the low card usage for these cards and had plans to cancel all inactive cards soon.

Chapter 5

The Auditor General's Review of Government Advertising

The idea of the Auditor General's reviewing government advertising arose in the mid-1990s, when legislators expressed concern about the appropriateness of a government's use of public funds for advertising that could be considered to further partisan interests. In late 2004, the Legislative Assembly enacted the *Government Advertising Act, 2004* (Act). Its intention is to prohibit government advertising that may be viewed as promoting the governing party's interests by fostering a positive impression of the government or a negative impression of any group or person critical of the government. Under the Act, which can be found at **www.e-laws.gov.on.ca**, advertisements must be submitted to and approved by the Auditor General before they can be used.

This report on government advertising satisfies the legislative requirements in the Act, as well as the *Auditor General Act*, to report annually to the Speaker. The report is intended to:

- provide a means to discuss publicly those matters concerning the exercise of the Auditor General's powers and duties under the Act [subsection 9(1)];
- report any contraventions of the requirements of the Act [subsection 9(2)]; and
- report on expenditures for advertisements, printed matter, and messages that were reviewed by the Office of the Auditor General under the Act, from April 1, 2007, to March 31, 2008 [subsection 12(2)(g) of the *Auditor General Act*].

During the 2007/08 fiscal year, we received and reviewed 184 advertising submissions comprising 914 individual advertising items, with a total cost of more than $53 million. Of all the submissions reviewed, we determined that one submission, comprising five ads, fostered a positive impression of the governing party—a violation of section 6(1)5 of the Act. The advertisements were subsequently revised, resubmitted, and approved. We also identified five contraventions of the Act—three advertisements and two advertorials that were published without first having been submitted to our Office for review and approval. Had these five items been submitted in advance, two would not have been approved. The Advertising Review Activity, 2007/08 section of this chapter provides specific details on reviews conducted, contraventions of the Act, and expenditures on advertisements and printed matter.

Overview of the Government Advertising Review Function

Under the Act, the Auditor General is responsible for reviewing specified types of government advertising to ensure that they meet legislated standards and that, above all, they do not contain anything that is, or may be interpreted as being, primarily partisan in nature. The Act states that "an item is partisan, if, in the opinion of the Auditor General, a primary objective of the item is to promote the partisan political interest of the governing party."

ENTITIES SUBJECT TO THE ACT

The Act applies to government offices, which it defines as ministries, Cabinet Office, the Office of the Premier, and such other entities as may be designated by regulation (as yet, no other entity has been designated). The Act requires every government office to submit proposed advertising, printed matter, or prescribed messages that are reviewable to the Auditor General's Office for a determination of whether they meet the standards of the Act.

REVIEWABLE ADVERTISING

The Act requires that the Auditor General review the following:

- any advertisement in any language that a government office proposes to pay for publishing in a newspaper or magazine, displaying on a billboard, or broadcasting on radio or television; and
- printed matter in any language that a government office proposes to pay for distributing to households in Ontario either by bulk mail or by another method of bulk delivery.

Items meeting either of these definitions are known as reviewable items.

Exceptions

The Act specifically excludes from review any advertisement or printed matter that is a job advertisement or a notice to the public required by law. Also excluded are advertisements concerning the provision of goods and services to a government office and those regarding an urgent matter affecting public health or safety.

The following are not specifically mentioned in the Act as excluded, although it is understood that they are not subject to the Act:

- electronic advertising on the government's own websites or any public site, except for web pages promoted through reference to their uniform resource locator (URL) in a reviewable item (see the Websites subsection later in this chapter); and
- brochures, pamphlets, newsletters, news releases, consultation documents, reports, and other similar printed matter, materials, or publications.

REQUIREMENTS FOR SUBMISSION AND USE OF ADVERTISING ITEMS

Sections 2, 3, 4, and 8 of the Act require that:

- a government office submit a copy of the proposed reviewable advertisement, printed matter, or message to the Auditor General's Office for review;
- a government office not publish, display, broadcast, distribute, or disseminate the submitted item:
  - before the head (that is, the deputy minister) of that office receives notice, or is deemed to have received notice, of the results of the review; or
  - if the head has received notice from the Auditor General that the item does not meet the standards required by the Act;
- when a government office proposes to use a revised version of a rejected item, the revised version be submitted to the Auditor General's Office for a further review; and
- a government office not use the revised version:
  - before the head of that office receives notice, or is deemed to have received notice, of the results of the review; or

- if the head has received notice from the Auditor General that the revised version does not meet the standards required by the Act.

REVIEW PERIOD AND NOTIFICATION OF THE AUDITOR GENERAL'S DECISION

By regulation, the Auditor General has seven business days from receipt of an item in finished form to notify a government office of the results of a review. Under the Act, if notice is not given within that time, the government office is deemed to have received notice that the item meets the standards of the Act.

If a finished item submitted for review does not meet the standards required by the Act, the government office may submit a revised version for a second review. As with the initial review, the Auditor General has seven business days from receipt to notify the government office of the results of this new review. If notice is not given within that time, the government office is deemed to have received notice that the revised version meets the standards of the Act.

Once an item has been approved, a government office may use it for the next 12 months. Under the Act, all decisions of the Auditor General are final.

STATUTORY STANDARDS TO BE MET BY REVIEWABLE ITEMS

In conducting its review, the Auditor General's Office first determines whether a reviewable item meets all of the standards of the Act, as follows:

- The item must be a reasonable means of achieving one or more of the following objectives:
    - to inform the public of current or proposed government policies, programs, or services available to them;
    - to inform the public of its rights and responsibilities under the law;
    - to encourage or discourage specific social behaviour in the public interest; and/or
    - to promote Ontario, or any part of the province, as a good place to live, work, invest, study, or visit, or to promote any economic activity or sector of Ontario's economy.
- The item must include a statement that it is paid for by the government of Ontario.
- The item must not include the name, voice, or image of a member of the Executive Council or a member of the Legislative Assembly (unless the primary target audience is located outside Ontario, in which case the item is exempt from this requirement).
- The item must not have as a primary objective the fostering of a positive impression of the governing party, or a negative impression of a person or entity critical of the government.
- The item must not be partisan; that is, in the opinion of the Auditor General, it cannot have as a primary objective the promotion of the partisan political interests of the governing party.

OTHER FACTORS CONSIDERED

In addition to the specific statutory standards above, the Act allows the Auditor General to consider additional factors he or she deems appropriate to determine whether a primary objective of an item is to promote the partisan political interests of the governing party [subsection 6(4)].

In general, the additional factors incorporated into the review process relate to the general impression conveyed by the message and how it is likely to be received or perceived. In determining whether an item may be perceived or received as partisan, consideration is given to whether it includes certain desirable characteristics and avoids certain undesirable ones, as follows:

- Each item should:
    - contain subject matter relevant to government responsibilities (that is, the government should have direct and substantial

  responsibilities for the specific matters dealt with in the item);
  - present information objectively, in tone and content, with facts expressed clearly and accurately using unbiased and objective language;
  - emphasize facts and/or explanations, not the political merits of proposals; and
  - enable the audience to distinguish between fact on the one hand and comment, opinion, or analysis on the other.
- Items should not:
  - use colours, logos, and/or slogans commonly associated with any recognized political party in the Legislative Assembly of Ontario;
  - inappropriately personalize (for instance, by personally attacking opponents or critics);
  - directly or indirectly attack, ridicule, or criticize the views, policies, or actions of those critical of government;
  - aim primarily at rebutting the arguments of others;
  - intentionally promote, or be perceived as promoting, political-party interests (to this end, consideration is also given to such matters as timing of the message, the audience it is aimed at, and the overall environment in which the message will be communicated);
  - deliver self-congratulatory or political-party image-building messages;
  - deal with matters such as a policy proposal where no decision has yet been made, unless the item provides a balanced explanation of both the benefits and the disadvantages;
  - present pre-existing policies, products, services, or activities as if they were new; or
  - use a uniform resource locator (URL) to direct readers, viewers, or listeners to a "first click" web page with content that may not meet the standards required by the Act (see Websites).

OTHER REVIEW PROTOCOLS

Websites

Websites referred to in an advertisement are technically not reviewable under the Act. However, we felt that a website used in an ad could be seen as a continuation of the ad. In discussing this with the government, we came to the agreement that the first page accessed by the "first click" of the URL would be included in our review. We do not consider web pages beyond the first click. We review the first-click page for any information or messages that may not meet the standards of the Act. For example, it must not include a minister's name, voice, or photograph, nor deliver self-congratulatory, party image-building messages, or messages that attack the policies, opinions, or actions of others.

Public-event and Conference-program Advertisements and Payments in Kind

With respect to government advertisements in programs distributed at public events and conferences, we felt that these advertisements should be subject to the Act because the programs usually follow the same format and serve a similar purpose as magazines and other print media (that is, ads are interspersed with content).

Advertising space in public-event and conference programs is at times provided to a government office free of charge. However, if the government office has made any kind of financial contribution to the event, including paid sponsorship, we consider this free advertisement to have been indirectly paid for. In considering this matter, we asked the following question: would the free advertisement have been granted to the government office if it had not made a financial contribution or sponsored the event? The answer would often be "no." Government officials have agreed with this approach to advertisements in programs distributed at public events and conferences. Consequently, items in these programs are considered reviewable under the Act and must be submitted for review.

Third-party Advertising

Recognizing that government funds are sometimes spent on advertising by third parties, the government and our Office have agreed that where a third party (not a government office) pays all or part of the cost of an advertising item, the government office must submit the item to us for review if it meets all three of the following criteria:

- a government office provides the third party with funds intended to pay part or all of the cost of publishing, displaying, broadcasting, or distributing the item; and
- the government of Ontario grants the third party permission to use the Ontario logo or another official provincial visual identifier in the item; and
- the government office approves the content of the item.

Government Recruitment Ads

As already mentioned, the Act specifically excludes a job advertisement from review. We have interpreted this exemption to apply to advertising for specific government jobs, but not to broad-ranging generic recruitment campaigns. During the year, we noted a violation when an advertisement for a recruitment compaign was not submitted to us for review in advance. We communicated our interpretation to the government, which agreed with it. Had the ad been submitted in advance, it would have been approved (see Figure 1).

Environmental Assessment Notices for Provincial Parks and Conservation Reserves

The Act exempts government notices required by law from the Auditor General's review. However, since the Act came into force, the Ministry of Natural Resources had routinely been submitting for review and approval advertisements for certain classes of environmental assessment notices. We discussed this with representatives of that ministry and came to an agreement that, because of the statutory nature of these advertisements, they would no longer require clearance through our Office.

Pre-reviews and Consultations

A pre-review is available to government offices wishing to have us examine an early version of an item. This can be a script or storyboard, provided that it reasonably and accurately reflects the item as it is intended to appear when completed. Pre-reviews help limit the investment of time and money spent to develop items containing material that we may deem objectionable under the Act.

If material submitted for pre-review appears to violate any of the standards in the Act, we provide explanatory comments to the government office. If it appears to meet the standards of the Act, we so advise the government office. However, before the item can be published, displayed, broadcast, printed, or otherwise disseminated, the government office must submit the finished item for review to ensure that the finished version still meets the standards of the Act.

A pre-review is strictly voluntary on our part and is outside the statutory requirements of the Act.

Figure 1: Contraventions of the *Government Advertising Act, 2004*, April 1, 2007–March 31, 2008

Prepared by the Office of the Auditor General of Ontario

Ministry	Description
Economic Development and Trade	Two advertorials promoting stem cell research in Ontario were published in German and French newspapers without first having been submitted to the Auditor General's Office for review and approval. Had the advertorials been submitted for review, they would have been approved as meeting the standards of the Act.
Environment	An advertisement was published in the Green Living Show Program Guide without first having been submitted to the Auditor General's Office for review and approval. Had it been submitted, the advertisement would not have met the prescribed standards because one of the URLs used in the advertisement brought users to a "first-click" web page that featured the name and image of the Minister and content that we believed to be partisan.
Government and Consumer Services	A generic recruitment advertisement was published as part of a supplement to a major newspaper without first having been submitted to the Auditor General's Office for review and approval. Although the Act specifically excludes a job advertisement from review, we have interpreted this exception to apply to advertising for specific government jobs, and not to a broad-ranging recruitment campaign such as this advertisement featured. Had the ad been submitted for review, it would have been approved as meeting the standards of the Act.
Health Promotion	An advertisement was published in the Doors Open Ontario 2007 Guide distributed by a major newspaper without first having been submitted to the Auditor General's Office for review and approval. Had it been submitted, the advertisement would not have met the prescribed standards because one of the URLs used in the advertisement brought users to a "first-click" web page that featured the name and image of the Minister and content that we believed to be partisan.

External Advisors

Under the *Auditor General Act*, the Auditor General can appoint an Advertising Commissioner to assist in fulfilling the requirements of the *Government Advertising Act, 2004*. However, instead of appointing an Advertising Commissioner, our Office has engaged external advisors to give assistance and advice in the ongoing review of items submitted for review. The following advisors have been engaged at various times by our Office during the 2007/08 fiscal year:

- Rafe Engle is a Toronto lawyer who specializes in advertising, marketing, communications, and entertainment law. He is also the outside legal counsel for Advertising Standards Canada. Before studying law, Mr. Engle acquired a comprehensive background in media and communications while working in the advertising industry.
- Jonathan Rose is Associate Professor of Political Studies at Queen's University. He is a leading Canadian academic with interests in political advertising and Canadian politics. Professor Rose has written a book on government advertising in Canada and a number of

articles on the way in which political parties and governments use advertising.
- Joel Ruimy is a Toronto communications consultant with many years of experience as a journalist, editor, and producer covering Ontario politics in print and television.

These advisors have provided invaluable assistance in our review of government advertising this year.

Advertising Review Activity, 2007/08

RESULTS OF OUR REVIEWS

During the 2007/08 fiscal year, we received and reviewed 184 advertising submissions comprising 914 individual reviewable items, with a total cost of more than $53 million.

As previously noted, the Act requires the Auditor General to notify a government office of the results of a review within seven business days of receiving an item. In 2007/08, we provided our decision in all cases within the required seven-day period. The length of time required for a review and decision can vary, depending on the complexity of the message contained in the item(s) and on the other work priorities of our review panel. Nevertheless, our average turnaround time for submissions was about four business days.

We also received and reviewed 11 pre-review submissions that were at a preliminary stage of development, most often at the script or storyboard level. Because pre-reviews are strictly voluntary on our part and outside the statutory requirements of the Act, they are second in priority to finished items. Nonetheless, we make every attempt to complete the pre-reviews within a reasonable length of time. The average turnaround time for pre-review submissions in 2007/08 was about five business days.

Of the 184 submissions reviewed, we determined that one submission by the Ministry of Children and Youth Services on the child benefit, comprising five ads, fostered a positive impression of the governing party—a violation of section 6(1) 5 of the Act. The Ministry subsequently revised the ads and submitted them for further review under subsection 8(1) of the Act, and our Office approved them.

We also withdrew approval that we had previously granted to the Ministry of Energy for four submissions on energy conservation, comprising 30 ads, after the name of the recognizable personality featured in the ads appeared in a political campaign document endorsing a government policy. This raised concerns in our minds that the ads could be interpreted by the public as fostering a positive impression of the governing party.

We also had five contraventions of the Act where advertisements were published without first having been submitted for review. Had the five items been submitted in advance, two would not have been approved, as outlined in Figure 1.

EXPENDITURES ON ADVERTISEMENTS AND PRINTED MATTER

The *Auditor General Act* requires that the Auditor General report annually to the Legislative Assembly on expenditures for advertisements, printed matter and messages that are reviewable under the *Government Advertising Act, 2004*.

Figure 2 contains expenditure details of individual advertising campaigns by each ministry for media-buy costs; agency creative costs; third-party production, talent, and distribution costs; and other third-party costs, such as translation. The information contained in Figure 2 was compiled by government offices and provided to the Auditor General's Office.

In order to test the completeness and accuracy of the reported advertising expenditures, the Auditor

General's Office performed a review of randomly selected payments to suppliers of advertising and creative services and their supporting documentation at selected ministries.

During our visits to selected government offices to verify reported expenditure information, we also performed certain compliance procedures with respect to the requirements of sections 2, 3, 4, and 8 of the Act, which pertain to submission requirements and prohibition on the use of items pending the Auditor General's review. No exceptions were noted.

Figure 2: Expenditures for Reviewable Advertisements and Printed Matter under the *Government Advertising Act, 2004*, April 1, 2007–March 31, 2008

Source of data: Ontario government offices

	# of	# of	Agency	Third-party Costs ($)	
Ministry/Campaign Title	**Submissions**	**Items**	**Costs ($)**	**Production**	**Talent**
Agriculture, Food and Rural Affairs					
Event Program Messages	5	6	–	–	–
Foodland Ontario [1]	–	–	–	–	20,000
Foodland Ontario [2]	1	9	–	–	–
Good Things Grow in Ontario/Pick Ontario Freshness	6	14	150,038	1,050,262	225,000
Ontario's Food and Beverage Sector	1	1	–	–	–
Children and Youth Services					
Ontario Child Benefit [3]	1	5	–	–	–
Ontario Child Benefit	3	36	202,240	402,987	45,434
Citizenship and Immigration					
Global Experience Ontario–Services for Newcomers	2	21	18,215	62,565	–
Order of Ontario	1	2	750	1,025	–
Preventing Violence Against Women [1]	–	–	2,687	2,107	15,106
Remembrance Day Ceremony	1	2	–	754	–
Community and Social Services					
AccessON: Breaking Barriers Together	1	13	84,120	111,495	–
Adoption	1	2	61,750	43,057	–
Community Safety and Correctional Services					
Emergency Survival	1	1	–	–	–
Even Program Message	1	1	–	–	–
Private Security and Investigative Services Act, 2005	1	2	–	–	–
RIDE Program, 2007	2	9	–	895	10,011
Economic Development and Trade					
Economy–Works for Me [2]	1	1	35,000	25,000	32,750
Event Program Message	1	1	–	2,808	–
Invest Ontario & Go North [1]	–	–	2,380	5,841	–
Invest Ontario & Go North	7	112	1,165,997	145,977	–
Invest Ontario & Go North [4]	–	–	–	137,453	–
Next Generation of Jobs Fund [2]	1	3	58,098	2,283	–
Energy					
Ontario Home Energy Audit Program	1	1	44,950	76,748	–
Ontario Solar Thermal Heating Incentive [2]	1	1	17,425	363	–
PowerWISE Phase IV [5]	3	30	446,800	704,589	60,154

1. ad submission from 06/07, with (more) expenditures in 07/08
2. ad submission from 07/08, with (more) expenditures to be reported in 08/09
3. violation–ad was reviewed and did not meet the required standards
4. contravention–ad was not submitted as required (see Figure 1)
5. previously granted approval withdrawn (see comments in Chapter 5, section "Results of Our Review")

Third-party Costs ($) cont'd		Media Costs ($)					Campaign Total ($)
Bulk Mail	**Other**	**TV**	**Radio**	**Print**	**Out-of-Home***	**Ad Value****	
–	54	–	–	–	–	2,663	2,717
–	7,600	1,509,077	138,844	–	21,803	–	1,697,324
–	–	–	–	–	–	–	–
–	1,200	3,605,528	474,951	45,956	367,799	–	5,920,734
–	–	–	–	–	–	7,995	7,995
–	–	–	–	–	–	–	–
–	93,611	672,861	–	318,487	377,950	–	2,[illegible]3,570
–	29,539	–	–	209,352	–	–	319,671
–	–	–	–	94,927	–	–	96,702
–	1,622	–	–	–	–	–	21,522
–	–	–	–	45,412	–	–	46,166
–	–	–	–	248,735	706,493	–	1,150,843
–	–	–	–	256,819	–	–	361,626
–	–	–	–	–	–	4,320	4,320
–	–	–	–	–	–	900	900
–	–	–	–	58,860	–	–	58,860
–	317	301,092	–	–	18,665	–	330,980
–	2,500	–	–	–	–	–	95,250
–	–	–	–	–	–	1,200	4,008
–	–	–	–	19,164	–	–	27,385
–	11,228	–	–	6,187,813	–	16,932	7,527,947
–	–	–	–	–	–	181,481	318,934
–	–	–	–	–	–	–	60,381
–	285	–	–	126,089	–	–	248,072
–	–	–	–	–	–	–	17,788
–	12,800	2,229,185	–	205,950	1,334,756	–	4,994,234

* Out-of-Home advertising includes, for example, billboards and transit posters.

** Ad Value denotes the value of an ad space provided to government offices at no cost, often where the government has provided funding for a related event/publication.

	# of	# of	Agency	Third-party Costs ($)	
Ministry/Campaign Title	**Submissions**	**Items**	**Costs ($)**	**Production**	**Talent**
Environment					
CFL Green Drive	1	3	–	225,000	–
Climate Change	1	2	226,800	366,657	35,837
Green Living Show 2007 [4]	–	–	–	–	–
Green Living Show 2008	1	1	–	–	–
Municipal Recycling Calendars	1	2	95,863	–	–
Finance					
2007 Pre-Election Report	2	17	52,055	–	–
2008 Ontario Budget [2]	2	23	–	–	–
Ontario Savings Bonds	1	30	272,580	22,267	18,876
Government and Consumer Services					
Best Employers for New Canadians [4]	–	–	–	1,239	–
MTO Temporary Office Closure [1]	–	–	–	–	–
OPS Careers Advertising	1	1	–	1,500	–
ServiceOntario	9	13	45,881	955	–
ServiceOntario [6]	1	2	–	350	–
ServiceOntario [2]	1	2	–	450	–
Health and Long-Term Care					
Colorectal Cancer Screening	6	46	262,100	923,943	50,351
Community Health Centre Public Forum	1	1	125	–	–
e-Health Program	1	1	1,600	–	–
Health Card Notice for Northern Residents	1	1	–	–	–
Health Human Resources–HealthForceOntario	3	20	52,640	57,124	–
Health Human Resources–HealthForceOntario [2]	1	5	–	–	–
Hepatitis C	4	9	51,440	105,540	–
HIV Anonymous Testing Sites [2]	1	14	44,480	–	–
HPV Vaccination Program	2	6	77,840	97,166	11,438
Infection Control	1	1	–	–	–
Influenza	8	55	69,674	161,129	18,787
Medication Management	10	52	137,213	386,772	69,827
Nurses Awareness Campaign [1]	–	–	240	970	–
OHIP Office Relocation [6]	1	1	–	–	–
Trillium Gift of Life Network [2]	1	2	–	–	–
West Nile Virus	5	102	36,342	130,205	2,858

1. ad submission from 06/07, with (more) expenditures in 07/08
2. ad submission from 07/08, with (more) expenditures to be reported in 08/09
4. contravention–ad was not submitted as required (see Figure 1)
6. ad cancelled or did not run

Third-party Costs ($) cont'd		Media Costs ($)					Campaign Total ($)
Bulk Mail	Other	TV	Radio	Print	Out-of-Home*	Ad Value**	
–	–	–	–	–	–	–	225,000
–	–	1,029,477	–	–	–	–	1,658,771
–	–	–	–	–	–	500	500
–	–	–	–	–	–	500	500
–	–	–	–	–	–	–	95,863
–	4,040	–	–	208,869	–	–	264,964
–	–	–	–	133,087	–	–	133,087
43,835	7,208	833,575	251,783	873,026	118,643	–	2,441,793
–	–	–	–	33,935	–	–	35,174
–	–	–	–	978	–	–	978
–	–	–	–	22,317	–	–	23,817
–	273	–	–	3,726	65,011	–	115,846
–	57	–	–	–	–	–	407
–	57	–	–	–	–	–	507
–	6,503	717,416	–	241,686	–	–	2,201,999
–	–	–	–	–	–	–	125
–	–	–	–	–	–	2,000	3,600
–	–	–	–	1,230	–	–	1,230
–	96	64,279	48,167	153,804	–	–	376,110
–	–	–	–	–	–	–	–
29,345	–	1,125,764	–	391,076	–	–	1,703,165
–	–	–	–	–	–	–	44,480
–	93	–	859,371	90,255	–	–	1,136,163
–	–	–	–	25,956	–	–	25,956
–	1,100	1,530,728	286,906	489,013	135,840	–	2,693,177
–	28,184	1,081,772	743,106	176,011	370,545	–	2,993,430
–	–	–	–	–	–	–	1,210
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	530	1,135,360	257,254	169,705	352,486	–	2,084,740

* Out-of-Home advertising includes, for example, billboards and transit posters.

** Ad Value denotes the value of an ad space provided to government offices at no cost, often where the government has provided funding for a related event/publication.

Ministry/Campaign Title	# of Submissions	# of Items	Agency Costs ($)	Third-party Costs ($)	
				Production	Talent
Health Promotion					
Cessation–Smoke-free Ontario	8	44	269,802	354,917	84,649
Doors Open Ontario [4]	–	–	–	–	–
EatRight Ontario	2	32	86,942	170,783	37,051
Healthy Eating and Active Living	4	30	–	284,088	21,360
Royal Winter Fair	1	2	–	–	–
Stupid.ca (anti-tobacco)	5	10	126,110	165,824	30,083
Intergovernmental Affairs and Democratic Renewal Secretariat					
The Citizens' Assembly Public Consultation Meetings	1	2	–	1,210	–
Labour					
Minimum Wage Increase 2008	1	12	2,189	–	–
Municipal Affairs and Housing					
Brownfields Ontario	1	1	–	–	–
Canada-Ontario Affordable Housing Program	1	2	–	–	–
Greenbelt Expansion Criteria Consultations [2]	3	6	–	67	–
Managing Natural Heritage System in Central Pickering	2	4	–	342	–
Natural Resources					
Algonquin Provincial Park	2	2	–	–	–
Bear Wise	2	10	–	15,347	–
Crown Land Camping Zone Expansion	1	1	–	–	–
Family Fishing Weekend [2]	1	1	–	–	–
FireSmart Wildfire Prevention [1]	–	–	–	–	–
FireSmart Wildfire Prevention	1	2	–	756	–
Fort Frances Advisory Committee	1	1	–	–	–
Kirkland Lake Management Strategy	1	1	–	–	–
Land Information Ontario	1	1	–	–	–
National Fishing Week	1	1	–	227	–
Ontario Parks [1]	–	–	–	–	–
Ontario Parks	11	17	–	1,309	–
Ontario Parks, Northern Ontario	5	6	–	–	–
Ontario Parks Planning Templates	1	17	–	–	–
Outdoors Card	1	1	–	138	–
Park Management Plans	3	3	–	–	–
Seasonal Leasing of Campsite Program [2]	5	6	–	–	–
Temagami Parks [1]	–	–	–	–	–
Vegetation Management Plans	1	1	–	–	–
Woodland Caribou Provincial Park, Snowmobilers Reminder	1	1	–	–	–

1. ad submission from 06/07, with (more) expenditures in 07/08
2. ad submission from 07/08, with (more) expenditures to be reported in 08/09

Third-party Costs ($) cont'd		Media Costs ($)					Campaign
Bulk Mail	Other	TV	Radio	Print	Out-of-Home*	Ad Value**	Total ($)
–	1,359	1,839,941	18,204	636,996	255,878	–	3,461,746
–	–	–	–	–	–	15,000	15,000
181,495	438	171,220	–	792,605	110,200	–	1,550,734
–	2,381	337,465	–	–	–	108,000	753,294
–	–	–	–	–	–	10,000	10,000
–	–	581,644	–	10,174	727,831	–	1,641,666
–	–	–	–	95,550	–	–	96,760
–	6,000	–	–	122,270	–	–	130,459
–	–	–	–	–	–	2,420	2,420
–	–	–	–	–	–	70,000	70,000
–	–	–	–	–	–	–	67
–	–	–	–	23,724	–	–	24,066
–	–	–	–	1,290	–	–	1,290
–	227	–	48,098	176,872	–	–	240,544
–	–	–	–	837	–	–	837
–	–	–	–	–	–	–	–
–	–	–	–	8,819	–	–	8,819
–	–	–	–	1,004	–	–	1,760
–	–	–	–	706	–	–	706
–	–	–	–	216	–	–	216
–	–	–	–	1,490	–	–	1,490
–	–	–	–	–	–	10,410	10,637
–	–	–	–	2,950	–	–	2,950
–	–	78,910	–	30,872	–	14,955	126,046
–	–	–	–	10,374	–	–	10,374
–	144	–	–	19,237	–	–	19,381
–	–	–	–	–	–	–	138
–	–	–	–	3,346	–	–	3,346
–	46	–	–	3,234	–	–	3,280
–	125	–	–	770	–	–	895
–	–	–	–	275	–	–	275
–	–	–	–	342	–	–	342

* Out-of-Home advertising includes, for example, billboards and transit posters.

** Ad Value denotes the value of an ad space provided to government offices at no cost, often where the government has provided funding for a related event/publication.

Ministry/Campaign Title	# of Submissions	# of Items	Agency Costs ($)	Third-party Costs ($)	
				Production	Talent
Northern Development and Mines					
GeologyOntario [1]	–	–	–	–	–
Northern Ontario Heritage Fund Corporation	1	2	–	–	–
Small Business and Entrepreneurship					
Summer Company Student Businesses	1	4	70,875	16,558	10,242
Training, Colleges and Universities					
Colleges Collective Bargaining Act Review	1	2	2,770	–	–
Employment Ontario Awareness [1]	–	–	572	38	–
Employment Ontario Awareness [2]	1	1	–	–	–
OSAP Access Window [1]	–	–	7,908	10,022	–
Studying Abroad [1]	–	–	5,960	–	–
Transportation					
Veterans' Licence Plates [2]	2	3	–	–	–
Total	**184**	**914**	**4,290,451**	**6,273,192**	**799,814**

1. ad submission from 06/07, with (more) expenditures in 07/08
2. ad submission from 07/08, with (more) expenditures to be reported in 08/09

Third-party Costs ($) cont'd		Media Costs ($)					Campaign
Bulk Mail	Other	TV	Radio	Print	Out-of-Home*	Ad Value**	Total ($)
–	–	–	–	13,594	–	–	13,594
–	–	–	–	6,230	–	–	6,230
–	2,005	–	304,926	–	–	–	404,606
–	43	–	–	13,072	–	–	15,885
–	–	–	–	–	–	5,000	5,610
–	–	–	–	–	–	–	–
–	–	–	–	152,555	–	–	170,485
–	–	–	–	–	–	–	5,960
–	–	629,778	–	78,251	–	–	708,029
254,675	**221,665**	**19,475,072**	**3,431,610**	**13,039,893**	**4,963,900**	**454,276**	**53,210,458**

* Out-of-Home advertising includes, for example, billboards and transit posters.

** Ad Value denotes the value of an ad space provided to government offices at no cost, often where the government has provided funding for a related event/publication.

Chapter 6

The Standing Committee on Public Accounts

Appointment and Composition of the Committee

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts. The Committee is appointed for the duration of the Parliament (that is, the period from the opening of the first session immediately following a general election to the end of a government's term and the calling of another election).

The membership of the Committee reflects proportionately the representation of parties in the Legislative Assembly. All members except the Chair are entitled to vote on motions; the Chair may vote only to break a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on December 10, 2007, for the duration of the 39th Parliament. The membership of the Committee when the House adjourned for the summer recess on June 18, 2008, was as follows:

Norm Sterling, Chair, Progressive Conservative
Jerry Ouellette, Vice-chair, Progressive Conservative
Laura Albanese, Liberal
Ernie Hardeman, Progressive Conservative
Andrea Horwath, New Democrat
Phil McNeely, Liberal
Liz Sandals, Liberal
Maria Van Bommel, Liberal
David Zimmer, Liberal

Role of the Committee

The Committee examines, assesses, and reports to the Legislative Assembly on a number of issues, including the economy and efficiency of government operations; the effectiveness of programs in achieving their objectives; controls over assets, expenditures, and the assessment and collection of revenues; and the reliability and appropriateness of information in the Public Accounts.

In fulfilling this role, pursuant to its terms of reference in the Standing Orders of the Assembly, the Committee reviews the Auditor General's Annual Report and the Public Accounts, holds a number of hearings throughout the year, and reports to the Legislative Assembly its observations, opinions, and recommendations. Under the Standing Orders, the Auditor General's Annual Reports and the Public Accounts are deemed to have been permanently referred to the Committee as they become available.

In addition, under sections 16 and 17 of the *Auditor General Act*, the Committee may request the

Auditor General to undertake a special assignment in an area of interest to the Committee.

AUDITOR GENERAL'S ADVISORY ROLE WITH THE COMMITTEE

In accordance with section 16 of the *Auditor General Act*, the Auditor General and senior staff attend committee meetings to assist the Committee in its review and hearings related to the Auditor General's Annual Report and the Public Accounts.

Committee Procedures and Operations

GENERAL

The Committee meets weekly when the Legislative Assembly is sitting; with the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard (the official verbatim report of debates in the House, speeches, other proceedings in the Legislative Assembly, and all open-session sittings of standing and select committees).

The Committee selects matters from the Auditor General's Annual Report for hearings. These matters typically relate to the Auditor General's value-for-money audit work. The Auditor General, along with the Committee's researcher, briefs the Committee on these matters, and the Committee then requests senior officials from the auditee to appear and respond to questions at the hearings. Since the Auditor General's Annual Report deals with operational, administrative, and financial rather than policy matters, ministers rarely attend. Once the hearings are completed, the Committee reports its comments and recommendations to the Legislative Assembly.

The Committee also follows up on when and how the ministries, Crown agencies, and organizations in the broader public sector not selected for hearings will address the concerns raised in the Auditor General's Annual Report. This process enables each auditee to update the Committee on what it has done in response to the Auditor General's recommendations since the completion of the audit.

MEETINGS HELD

The Committee met 15 times during the December 2007–September 2008 period to review the following sections from the Auditor General's *2007 Annual Report* and to write reports, where warranted, for subsequent tabling in the Legislative Assembly:

- Archives of Ontario and Information Storage and Retrieval Services;
- Centre of Forensic Sciences;
- Fish and Wildlife Program;
- Hazardous Waste Management;
- Hospitals—Management and Use of Surgical Facilities;
- Long-term-care Homes—Medication Management;
- Ontario Sex Offender Registry;
- Outbreak Preparedness and Management; and
- Universities—Management of Facilities.

REPORTS OF THE COMMITTEE

The Committee issues its reports to the Legislative Assembly. These reports summarize the information reviewed by the Committee during its meetings, as well as make comments and recommendations.

All committee reports are available through the Clerk of the Committee (or online at **www.ontla.on.ca**), thus providing the public with full access to the findings and recommendations of the Committee.

After the Committee tables a report in the Legislative Assembly, it requests that ministries or agencies respond to each recommendation either within 120 days or within a time frame stipulated by the Committee.

During the period from December 2007 to September 2008, the Committee submitted the following reports to the Legislative Assembly:

- *Centre of Forensic Sciences;*
- *Community Colleges—Acquisition of Goods and Services;*
- *Hydro One Inc.—Acquisition of Goods and Services;*
- *Ontario Realty Corporation—Real Estate and Accommodation Services;* and
- *School Boards—Acquisition of Goods and Services.*

FOLLOW-UP ON RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up on the actions taken by ministries, agencies, and organizations in the broader public sector in response to the Committee's recommendations. The Office of the Auditor General reviews responses from ministries and agencies and, in subsequent audits, follows up on the actions reported.

COMMITTEE MOTION TO CONSIDER ISSUING SPECIAL REPORT

On June 11, 2008, the Committee passed the following motion:

> That, following the Auditor General's completion of his value-for-money audit of the prevention and control of hospital-acquired infections, including *C. difficile* in the selected hospitals, if, in the Auditor General's opinion, his recommendations could have a significant and timely impact on public health, the Standing Committee on Public Accounts of the Legislative Assembly of Ontario calls on the Auditor General to consider using the discretion outlined in section 12(1) of the *Auditor General Act* to release that chapter of his Annual Report in a special report to the Speaker; and that, prior to the tabling of this report with the Committee, the Auditor General may inform the Deputy Ministry of Health of his opinions, observations, or recommendations.

Because of this motion by the Committee, as well as the recent public interest in *C. difficile* infections, the Auditor General decided that the results of the audit of hospital-acquired infections should not be deferred until his *2008 Annual Report*. Accordingly, he submitted a special report entitled *Prevention and Control of Hospital-acquired Infections* to the Speaker of the House on September 29, 2008.

OTHER COMMITTEE ACTIVITIES

Canadian Council of Public Accounts Committees and Visiting Delegations

The Canadian Council of Public Accounts Committees (CCPAC) consists of delegates from federal, provincial, and territorial public accounts committees from across Canada. CCPAC meets at the same time and place as the Canadian Council of Legislative Auditors (CCOLA) so that issues of mutual interest can be discussed. The 29th annual meeting of CCPAC was hosted by the Yukon and was held in Whitehorse from September 7 to 9, 2008.

In April 2008, the Committee received a delegation representing the National People's Congress, Republic of China.

Chapter 7

The Office of the Auditor General of Ontario

The Office of the Auditor General of Ontario (Office) is committed to promoting accountability, economy, efficiency, and effectiveness in government and broader public-sector operations for the benefit of the citizens of Ontario. The Office provides objective information and advice to the Legislative Assembly of Ontario on the results of our independent value-for-money and financial audits and reviews. In so doing, the Office assists the Legislative Assembly in holding the government, its administrators, and grant recipients accountable for the quality of their stewardship of public funds and for the achievement of value for money in the delivery of services to the public. The work of the Office is performed under the authority of the *Auditor General Act* (Act), which can be found at **www.e-laws.gov.on.ca**.

Auditor General Act

The *Auditor General Act* came about with the passage, on November 22, 2004, of Bill 18, the *Audit Statute Law Amendment Act*, which received Royal Assent on November 30, 2004. The purpose of Bill 18 was to make certain amendments to the *Audit Act* to enhance the ability of the Office to serve the Legislative Assembly. The most significant amendment contained in Bill 18 was the expansion of the Office's value-for-money audit mandate to organizations in the broader public sector that receive government grants. This *2008 Annual Report* marks the third year of our expanded audit mandate.

Appointment of Auditor General

The Auditor General is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council—that is, the Lieutenant Governor appoints the Auditor General on and with the advice of the Executive Council (the Cabinet). The appointment is made "on the address of the Assembly," meaning that the appointee must be approved by the Legislative Assembly. The *Auditor General Act* also requires that the Chair of the Standing Committee on Public Accounts—who, under the Standing Orders of the Legislative Assembly, is a member of the official opposition—be consulted before the appointment is made (for more information on the Committee, see Chapter 6).

Independence

The Auditor General and staff of the Office are independent of the government and its administration. This independence is an essential safeguard that enables the Office to fulfill its auditing and reporting responsibilities objectively and fairly.

The Auditor General is appointed to a 10-year, non-renewable term, and can be dismissed only for cause by the Legislative Assembly. Consequently, the Auditor General maintains an arm's length distance from the government and the political parties in the Legislative Assembly and is thus free to fulfill the Office's legislated mandate without political pressure.

The Board of Internal Economy—an all-party legislative committee that is independent of the government's administrative process—reviews and approves the Office's budget, which is subsequently laid before the Legislative Assembly. As required by the *Auditor General Act*, the Office's expenditures relating to the 2007/08 fiscal year have been audited by a firm of chartered accountants, and the audited financial statements of the Office are submitted to the Board and subsequently must be tabled in the Legislative Assembly. The audited statements and related discussion of expenditures for the year are presented at the end of this chapter.

Audit Responsibilities

We audit the financial statements of the province and the accounts of many agencies of the Crown. However, about two-thirds of our work relates to our value-for-money audits of the administration of government programs, including broader-public-sector organizations that receive government grants, and Crown agencies and Crown-controlled corporations. Our responsibilities are set out in the *Auditor General Act* (see the Attest Audit and Value-for-money Audit sections later in this chapter for details on these two types of audits).

As required by the Act, the Office reports on its audits in an Annual Report to the Legislative Assembly. In addition, the Office may make a special report to the Legislative Assembly at any time on any matter that, in the opinion of the Auditor General, should not be deferred until the Annual Report. Owing to a motion of the Standing Committee on Public Accounts, which undoubtedly reflects the significant public interest in *C. difficile* and other hospital-acquired infections, the Auditor General transmitted a special report to the Speaker on the Prevention and Control of Hospital-acquired Infections in early fall 2008. The Office also assists and advises the Standing Committee on Public Accounts in its review of the Office's reports. (See Chapter 6 for a discussion of this committee's activities this year.)

It should be noted that our audit activities include examining the actual administration and execution of the government's policy decisions, as carried out by management. However, the Office does not comment on the merits of government policy, since the government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies through questions during legislative sessions and through reviews of legislation and expenditure estimates.

We are entitled to have access to all relevant information and records necessary to the performance of our duties under the *Auditor General Act*. Out of respect for the principle of Cabinet privilege, the Office does not seek access to the deliberations of Cabinet. However, the Office can access virtually all other information contained in Cabinet submissions or decisions that we deem necessary to fulfill our auditing and reporting responsibilities under the *Auditor General Act*.

AGENCIES OF THE CROWN AND CROWN-CONTROLLED CORPORATIONS

The Auditor General, under subsection 9(2) of the *Auditor General Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit 1, Part 1 lists the agencies that were audited during the 2007/08 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of a number of these agencies on the Office's behalf.

Exhibit 1, Part 2 and Exhibit 2 list the agencies of the Crown and the Crown-controlled corporations respectively that were audited by public accounting firms during the 2007/08 audit year. Subsection 9(2) of the Act requires that public accounting firms that are appointed auditors of certain agencies of the Crown perform their audits under the direction of the Auditor General and report their results to the Auditor General. Under subsection 9(3) of the Act, public accounting firms auditing Crown-controlled corporations are required to deliver to the Auditor General a copy of the audited financial statements of the corporation and a copy of the accounting firm's report of its findings and recommendations to management (typically contained in a management letter).

ADDITIONAL RESPONSIBILITIES

Under section 16 of the Act, the Auditor General may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act allows the Auditor General to undertake special assignments requested by the Legislative Assembly, by the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Auditor General's other duties. The Auditor General can decline a special assignment referred by a minister if, in his or her opinion, it conflicts with other duties.

During the period of audit activity covered by this Annual Report (October 2007 to September 2008), the Office was involved in the following assignments under section 17:

- a Special Follow-up Review, requested by the Minister of Children and Youth Services, of the Ministry's Child Welfare Services Program and the four Children's Aid Societies that had been audited in 2006, delivered January 29, 2008; and
- a Special Audit of AgriCorp and its delivery of farm support programs, requested by the Minister of Agriculture, Food and Rural Affairs, delivered July 15, 2008.

Audit Activities

TYPES OF AUDIT WORK

Value-for-money, attest, and compliance audits are the three main types of audit work carried out by the Office. The Office generally conducts compliance audit work as a component of its value-for-money and attest audits. The following are brief descriptions of each of these audit types.

Value-for-money Audits

Subclauses 12(2)(f)(iv) and 12(2)(f)(v) of the *Auditor General Act* require that the Auditor General report on any cases observed where money was spent without due regard for economy and efficiency, or where appropriate procedures were not in place to measure and report on the effectiveness of programs. In other words, our value-for-money work assesses the administration of programs, activities, and systems by management, including major information systems. This value-for-money mandate is exercised through the auditing of various ministry and Crown agency programs. Starting in the 2005/06 audit year, the mandate has also included value-for-money audits of the activities of organizations receiving government grants such as hospitals, school boards, and numerous other entities in the broader public sector, as well as Crown-controlled corporations. We refer to the government bodies and publicly funded entities that we audit as our auditees. Value-for-money audits constitute about two-thirds of the work of the Office. The results of our value-for-money audits performed between October 2007 and September 2008 are reported in Chapter 3.

It is not part of the Office's mandate to measure, evaluate, or report on the effectiveness of programs, or to develop performance measures or standards. These functions are the responsibility of the auditee's management. However, the Office reports instances where it has noted that the auditee has not carried out these functions satisfactorily.

We plan, perform, and report on our value-for-money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. These standards require that we employ adequate processes to maintain the quality, integrity, and value of our work for our client, the Legislative Assembly. Some of these processes and the degree of assurance they enable us to provide are described below.

Selection of Programs and Activities for Value-for-Money Audits

Major programs and activities administered by ministries are audited at approximately five- to seven-year intervals. Various factors are considered in selecting ministry programs and activities for this type of audit each year. These factors include the results of previous audits and related follow-ups; the total revenues or expenditures involved; the impact of the program or activity on the public; the inherent risk due to the complexity and diversity of operations; recent significant changes in program operations; the significance of possible issues that may be identified by an audit; and the costs of performing the audit in relation to the perceived benefits.

We also consider the work completed or planned by the auditee's internal auditors. The relevance, timeliness, and breadth of scope of work done by a ministry's internal audit can have an impact on the timing, frequency, and extent of our audits. By having access to internal audit work plans, working papers, and reports, and by relying, to the extent possible, on internal audit activities, the Office is able to avoid duplication of effort.

Over the first three years of operating under our expanded value-for-money mandate, we have conducted value-for-money audits on major grant-recipient sectors such as hospitals, school boards, long-term-care homes, social service agencies, universities, and colleges, as well as at larger Crown-controlled corporations.

Objectives and Assurance Levels

The objective of our value-for-money work is to meet the requirements of subclauses 12(2)(f)(iv) and 12(2)(f)(v) of the *Auditor General Act* by identifying and reporting significant value-for-money issues. We also include in our reports recommendations for improving public-service levels and delivering such services more cost-effectively. Management responses to our recommendations are included in our reports.

The specific objective for each audit or review conducted is clearly stated in the "Audit Objective and Scope" section of each audit report—that is, in each value-for-money audit in Chapter 3.

In almost all cases, our work is planned and performed to provide an audit level of assurance. An audit level of assurance is obtained by interviewing management and analyzing the information it provides; examining and testing systems, procedures, and transactions; confirming facts with independent sources; and, where necessary, obtaining expert assistance and advice in highly technical areas.

An audit level of assurance is the highest reasonable level of assurance that the Office can provide concerning the subject matter. Absolute assurance that all significant matters have been identified is not attainable for various reasons, including the limitations of testing as a means of gathering information from which to draw conclusions; the inherent limitations of control systems (for example, management or staff often have some ability to circumvent the controls over a process or procedure); the fact that much of the evidence available for concluding on our objectives is persuasive rather than conclusive in nature; and the need to exercise professional judgment in, for example, interpreting information.

Infrequently, for reasons such as the nature of the program or activity, limitations in the *Auditor General Act* or the prohibitive cost of providing a high level of assurance, the Office will perform a review rather than an audit. A review provides a moderate level of assurance, obtained primarily through inquiries and discussions with management; analyses of information management provides; and only limited examination and testing of systems, procedures, and transactions.

Criteria

In accordance with professional standards for assurance engagements, work is planned and performed to provide a conclusion on the objective(s) set for the work. A conclusion is reached and observations and recommendations are made by evaluating the administration of a program or activity against suitable criteria. Suitable criteria are identified at the planning stage of our value-for-money audit or review by extensively researching sources such as recognized bodies of experts; other bodies or jurisdictions delivering similar programs and services; management's own policies and procedures; applicable criteria successfully applied in other audits or reviews; and applicable laws, regulations, and other authorities.

To further ensure their suitability, the criteria being applied are discussed with the senior management responsible for the program or activity, at the planning stage of the audit or review.

Communication with Management

To help ensure the factual accuracy of our observations and conclusions, staff from our Office communicate with the auditee's senior management throughout the value-for-money audit or review. Before beginning the work, our staff meet with management to discuss the objective(s) and criteria and the focus of our work in general terms. During the audit or review, our staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with the auditee's senior management. The auditee's management provides written responses to our recommendations, and these are discussed and incorporated into the draft report. The Auditor General finalizes the draft report (on which the Chapter 3 section of the Annual Report will be based) with the deputy minister or head of the agency, corporation, or grant recipient organization responsible, after which the report is published in the Annual Report.

Attest Audits

Attest (financial statement) audits are designed to permit the expression of the auditor's opinion on a set of financial statements in accordance with generally accepted auditing standards. The opinion states whether the operations and financial position of the entity, as reflected in its financial statements, have been fairly presented in compliance with appropriate accounting policies, which in most cases are Canadian generally accepted accounting principles. The Office conducts attest audits of the consolidated financial statements of the province and of numerous Crown agencies on an annual basis.

The Auditor General, under subsection 9(1) of the *Auditor General Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, whether held in trust or otherwise. To this end, and in accordance with subsection 12(3), the Office carries out an annual attest audit to enable the Auditor General to express an opinion on whether the province's consolidated financial statements are fairly presented.

With respect to reporting on attest audits of agencies, agency legislation normally stipulates that the Auditor General's reporting responsibilities are to the agency's board and the minister(s) responsible. Our Office also provides copies of the audit opinions and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Treasury Board.

In instances where matters that require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared, discussed with senior management, and revised as necessary to reflect the results of the discussion. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and usually discussed with the agency's audit committee.

Compliance Audits

Subsection 12(2) of the *Auditor General Act* also requires that the Auditor General report observed instances where:

- accounts were not properly kept or public money was not fully accounted for;
- essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to check effectively the assessment, collection, and proper allocation of revenue or to ensure that expenditures were made only as authorized; or
- money was expended other than for the purposes for which it was appropriated.

We often assess the controls for managing these risks as part of our annual agency attest audits. As part of our value-for-money work, we:

- identify provisions in legislation and authorities that govern the programs, activities, agencies, corporations, or grant recipient organizations being examined or that the management is responsible for administering; and
- perform such tests and procedures as we deem necessary to obtain reasonable assurance that management has complied with legislation and authorities in all significant respects.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Auditor General Act*, the Auditor General has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts, or a minister of the Crown. At the conclusion of such work, the Auditor General normally reports to the authority that initiated the assignment. As discussed previously, the Office issued two special request reports this year.

CONFIDENTIALITY OF WORKING PAPERS

In the course of our reporting activities, we prepare draft audit reports and management letters that are considered to be an integral part of our audit working papers. It should be noted that these working papers, according to section 19 of the *Auditor General Act*, do not have to be laid before the Legislative Assembly or any of its committees. As well, because our Office is exempt from the *Freedom of Information and Protection of Privacy Act*, our reports and audit working papers, which include all information obtained during the course of an audit from the auditee, cannot be accessed from our Office, thus further ensuring confidentiality.

CODE OF PROFESSIONAL CONDUCT

The Office has a Code of Professional Conduct to encourage staff to maintain high professional standards and ensure a professional work environment. The Code is intended to be a general statement of philosophy, principles, and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence, and integrity in their work.

The Code provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public, and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict-of-interest situations. All employees are required to complete an annual conflict-of-interest declaration.

Office Organization and Personnel

The Office is organized into portfolio teams—a framework that attempts to align related audit entities and to foster expertise in the various areas of audit activity. The portfolios, which are loosely based on the government's own ministry organization, are each headed by a Director, who oversees and is responsible for the audits within the assigned portfolio. Assisting the Directors and rounding out the teams are a number of audit Managers and various other audit staff (see Figure 1).

The Auditor General, the Deputy Auditor General, the Directors, and the Manager of Human Resources make up the Office's Senior Management Committee.

Canadian Council of Legislative Auditors

This year, the Yukon hosted the 36th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) in Whitehorse, from September 7 to 9, 2008. This annual gathering has, for a number of years, been held jointly with the annual conference of the Canadian Council of Public Accounts Committees. It brings together legislative auditors and members of the Standing Committees on Public Accounts from the federal government and the provinces and territories, and provides a useful forum for sharing ideas and exchanging information.

International Visitors

As an acknowledged leader in value-for-money auditing, the Office periodically receives requests to meet with visitors and delegations from abroad to discuss the roles and responsibilities of the Office and to share our value-for-money and other audit experiences with them. During the audit year covered by this report, the Office met with legislators/public servants/auditors from Australia, China (two visits), Cuba, Germany, Japan, Russia, Tanzania, and Thailand.

Results Produced by the Office This Year

The 2007/08 fiscal year was very productive for the Office.

We continued to take advantage of our recently expanded value-for-money mandate by performing five audits in the broader public sector, with a distinct focus this year on hospitals, on which we issued three separate reports. One of these, *Prevention and Control of Hospital-acquired Infections*, was issued as a separate report to the Speaker in early fall 2008, primarily because a motion passed by the Standing Committee on Public Accounts requested that we consider issuing this report to the Legislature on completion rather than including it in our Annual Report, as is our normal practice under the *Auditor General Act*. The other two were a review of the Alternative Financing Procurement (P3) Project at the Brampton Civic Hospital, and a comparison of hospital governance in Ontario to best practices. Two other audits of the broader public sector dealt with maintenance of school board facilities and Children's Mental Health agencies.

Figure 1: Office Organization, September 30, 2008

Auditor General

Jim McCarter

Deputy Auditor General

Gary Peall

Human Resources

Annemarie Wiebe, Manager
Shayna Whiteford

Professional Practices

Michael Brennan, Manager

Research

Michael Radford

Operations

John Sciarra, Director

Administration

Shanta Persaud
Maureen Bissonnette
Sohani Myers
Christine Wu

Communications and Government Advertising Review

Andréa Vanasse/Christine Pedias (Acting), Manager
Shirley Falkner
Mariana Green
Tiina Randoja

Information Technology

Peter Lee
Shams Ali

Audit Porfolios and Staff

Community and Social Services, and Revenue

Walter Bordne, Director
Wendy Cumbo, Manager
Nick Stavropoulos, Manager
Vishal Baloria
Johan Boer
Stephanie Chen
Constantino De Sousa
Katrina Exaltacion
Inna Guelfand
Li-Lian Koh
Angela Schieda
Aldora Sequeira
Maria Zuyev

Crown Agencies

John McDowell, Director
Walter Allan, Manager
Tom Chatzidimos
Mary Romano
Megan Sim

Economic Development, Environment, Natural Resources, and Education & Training

Gerard Fitzmaurice, Director
Vanna Gotsis, Manager
Fraser Rogers, Manager
Tony Tersigni, Manager
Tino Bove
Zahra Jaffer
Joane Mui
Roger Munroe
Mark Smith
Zhenya Stekovic
Ellen Tepelenas
Dora Ulisse
Brian Wanchuk
Oksana Wasylyk

Health and Health Promotion

Rudolph Chiu, Director
Sandy Chan, Manager
Denise Young, Manager
Ariane Chan
Frederick Chan
Anita Cheung
Jordan Lazor
Oscar Rodriguez
Pasha Sidhu
Alla Volodina
Celia Yeung
Gigi Yip

Health and Long-Term Care Providers

Susan Klein, Director
Laura Bell, Manager
Naomi Herberg, Manager
Emanuel Tsikritsis, Manager
Kevin Aro
Matthew Brikis
Sally Chang
Jennifer Fung
Veronica Ho
Adil Palsetia
Linde Qiu
Gloria Tsang

Justice and Regulatory

Vince Mazzone, Director
Rick MacNeil, Manager
Vivian Sin, Manager
Helen Chow
Howard Davy
Fares Elahi
Kandy Fletcher
Rashmeet Gill
Mark Hancock
Alfred Kiang
Cynthia Lau
Ruchir Patel
Janet Wan

Public Accounts, Finance, and Information Technology

Paul Amodeo, Director
Rita Mok, Manager
Bill Pelow, Manager
Suzanna Chan
Henry Cheng
Tanmay Gupta
Shariq Saeed
Enoch Wong

Transportation, Infrastructure, and Municipal Affairs

Andrew Cheung, Director
Teresa Carello, Manager
Gus Chagani, Manager
Kim Achoy
Bartsoz Amerski
Izabela Beben
Kim Cho
Marcia DeSouza
Isabella Ho
Gajalini Ramachandran
Alexander Truong

In addition, we performed nine value-for-money audits of ministry programs, including four audits where extensive work was also carried out at the local grant recipient level—at mental health and addiction agencies, which are both funded by the Ministry of Health and Long-Term Care, at the local school level as part of our audit of the Ministry of Education's special education program, and at employment counselling and service provider agencies under the Ministry of Training, Colleges and Universities' Employment Ontario program. We also performed our first value-for-money audit at the Ontario Clean Water Agency.

As well as the issuance of the hospital-acquired infections audit as a special report under section 12 of the *Auditor General Act*, we completed two special assignments for ministers under section 17 of the Act. The first was a special review for the Minister of Children and Youth Services to follow up on our 2006 audits of the Child Welfare Services Program and four Children's Aid Societies, which was issued in January 2008. The second, a special audit of AgriCorp Farm Support Programs for the Minister of Agriculture, Food and Rural Affairs, was issued in July 2008.

In total, we completed 17 value-for-money audits and special reports this year, making it one of the most productive value-for-money audit years in the Office's history.

From a financial statement audit perspective, we are responsible for auditing the Province's consolidated financial statements (as further discussed in Chapter 2) as well as auditing the financial statements of more than 40 Crown agencies. This year, we again met all of our key financial statement audit deadlines. We also continued to invest in training that helped us to successfully implement ongoing revisions to the assurance standards and methodology we use for conducting our financial statement audits. A peer review indicated that we were meeting the new standards in all significant respects.

We successfully met our review responsibilities under the *Government Advertising Act*, as further discussed in Chapter 5.

The results produced by the Office this year would clearly not have been possible without the hard work and dedication of our staff and the assistance of our contract staff and expert advisors.

Financial Accountability

The following discussion and our financial statements outline the Office's financial results and expenditures for the 2007/08 fiscal year.

Figure 2 provides a comparison of our approved budget and actual expenditures in the five years between 2003/04 and 2007/08. Figure 3 presents

Figure 2: Five-year Comparison of Spending (Accrual Basis) ($ 000)

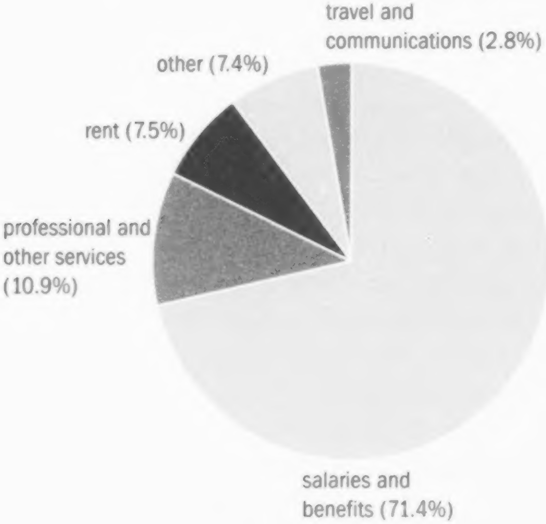
Prepared by the Office of the Auditor General of Ontario

	2003/04	2004/05	2005/06	2006/07	2007/08
Approved budget	**9,870**	**10,914**	**12,552**	**13,992**	**15,308**
Actual expenses					
salaries and benefits	6,943	7,261	8,047	8,760	9,999
professional and other services	794	877	951	1,264	1,525
rent	914	891	962	985	1,048
travel and communications	205	290	324	363	397
other	679	533	756	930	1,033
Total	**9,535**	**9,852**	**11,040**	**12,302**	**14,002**
Returned to province*	**406**	**1,201**	**1,609**	**1,730**	**1,608**

* These amounts are typically slightly higher than the excess of revenue over expenses as a result of non-cash expenses (such as amortization of capital assets).

Figure 3: Spending by Major Expenditure Category, 2007/08

Prepared by the Office of the Auditor General of Ontario



the major components of our spending and shows that 71% related to salary and benefit costs for our staff, while professional and other services and rent comprised most of the remainder. The proportions in Figure 3 have remained relatively constant in recent years, with the possible exception of contracted professional services, which increased significantly again this year to enable us to manage the volume, timing, and complexity of our work.

Overall, while our expenses increased 13.8% (11.4% in 2006/07) they were again significantly under budget. Over the five-year period presented in Figure 2, we have returned unspent appropriations totalling almost $6.6 million. This is principally because the Office has historically faced challenges in hiring and retaining qualified professional staff in the competitive Toronto job market, because public-service salary ranges have not kept pace with compensation increases for such professionals in the private sector. A more detailed discussion of the changes in our expenses and some of the challenges we are facing follows.

SALARIES AND BENEFITS

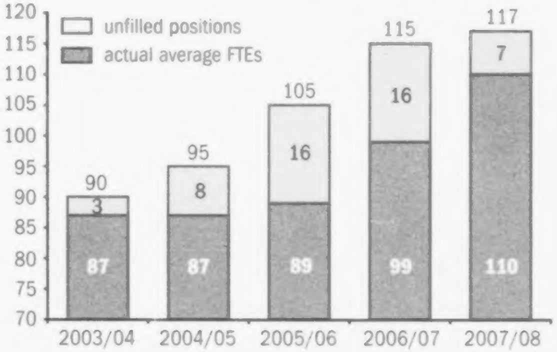
Our salary and benefit costs rose 14% this year, due primarily to an 11% increase in the number of staff employed over the prior year, performance pay increases in line with those approved for Ontario public servants, and higher benefit costs from an increase in future benefit obligations.

A gradual increase in our approved complement—from 90 in 2003/04 to 117 in 2007/08 (see Figure 4) has allowed us to gradually increase the average number of staff we employ to 110, an increase of 11% from 2006/07 and 26% since 2003/04. However, this growth continues to be primarily at more junior levels because our salaries and benefits are more competitive at these levels. We quickly fall behind private- and broader-public-sector salary scales for more experienced professional accountants. This is the main reason that, as Figure 4 shows, we still have a number of unfilled positions. The growing complexity of the work we perform, especially that related to our value-for-money audits, demands that we use highly qualified, experienced staff as much as possible. We anticipate that maintaining and enhancing our capacity to perform these audits will be an ongoing and increasing challenge, as a number of our more experienced staff will be eligible to retire over the next five years.

According to results of a national survey carried out for the Canadian Institute of Chartered

Figure 4: Staffing, 2003/04–2007/08

Prepared by the Office of the Auditor General of Ontario



Accountants reported in August 2007, the average compensation for all Chartered Accountants (CAs) was up 14% since 2005 to $186,500 ($193,700 in Ontario). The average salary for a new CA was $68,300, which is roughly comparable to our salary range for new CAs. However, the average salary for a CA with five years of post qualifying experience rose to $117,700—significantly higher than the salaries of our audit manager positions, every one of whom has more than five years of post qualifying experience, and many of whom have substantially more experience. The salaries of our highest paid staff in the 2007 calendar year are disclosed in Note 6 to our financial statements.

Under the *Auditor General Act*, our salary levels must be comparable to the salary ranges of similar positions in the government, and these ranges remain uncompetitive with both the broader-public-sector and private-sector salaries. According to the 2007 survey, average salaries for CAs in government ($108,700) were 16% lower than those in the not-for-profit sector ($130,000) and, most importantly, 32% lower than salaries of those working for professional service CA firms ($159,400)—our primary competitors for professional accountants.

Our benefit costs also increased this year, with the increase of $335,000 (13%) in our accrued benefit liability. This increase resulted from increases in accumulated unused vacation and severance entitlements as well as a 6% increase in the salary levels for senior staff, which the calculation of this liability is based on. Salary levels are determined by the government, and there had been no increase in these salary levels the previous year.

RENT

Our costs for accommodation increased 6.4%, primarily due to rising building operating costs, particularly taxes and utilities. Accommodation costs, however, continue to decline as a percentage of total spending.

PROFESSIONAL AND OTHER SERVICES

These services represent our most significant cost pressure. They increased by $261,000, or more than 20% over the previous year, and have almost doubled since 2003/04. The largest component of the increase, costs for contract professionals and firms, has risen for a number of reasons. We continue to rely more on contract professionals to meet our legislated responsibilities because of the difficulties discussed earlier in reaching our full complement. Also, the deadlines for finalizing the financial statement audits of Crown agencies and the province have become tighter. Meeting the deadlines requires contracting some of this work out, not only because of the amount of work needed to be done in a shorter time frame, but also because we must commit sufficient numbers of our own staff to completing our value-for-money work at the same time. For these reasons, this year we contracted out the financial statement audits of two more agencies than we did last year. With the exception of out-of-town audits, where we incur travel costs, contracted-out audits to CA firms are more costly because the CA firms' hourly billing rates are usually significantly higher than our staff salary levels.

Our increased volume of work also increased the amount of contract editorial assistance we required this year.

TRAVEL AND COMMUNICATIONS

With the expansion of our mandate to audit broader-public-sector organizations, we are incurring significantly more travel costs than in the past. More than half our value-for-money audits this year involved visits to service providers in the broader public sector across the province. As well, our Special Audit of AgriCorp for the Minister of Agriculture, Food and Rural Affairs required extended travel to Guelph. As a result of this as well as the need to maintain secure and convenient electronic communication with our increasing number of staff in the field, these costs rose 9% over last year and have almost doubled since 2003/04.

OTHER

Other costs, which include asset amortization, training costs, and statutory expenses, have increased $103,000 or 11% over last year. Most of this increase ($69,000) relates to staff training. We have invested over 50% more in training due to the increase in staff and the need to prepare them for the significant and ongoing changes to accounting and assurance standards. We also devoted additional resources to upgrading and providing our value-for-money audit training in collaboration with other Canadian legislative audit offices so that offices could more effectively share experiences and best practices. Amortization costs increased $26,000, due to previous investments in leasehold improvements, computer equipment, and software upgrades.

Statutory expenses actually declined this year, because increases in specialist assistance costs associated with our statutory responsibility to report on the *2007 Pre-Election Report* last June were offset by reduced need for expert assistance to administer the *Government Advertising Act*. Also, statutory expenses were higher last year because of a one-time payout of unused vacation credits to the Auditor General, which formed part of his salary for that year.

FINANCIAL STATEMENTS

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Office of the Auditor General for the year ended March 31, 2008 are the responsibility of management of the Office. Management has prepared the financial statements to comply with the *Auditor General Act* and with Canadian generally accepted accounting principles.

To ensure the integrity and objectivity of the financial data, management maintains a system of internal controls that provide reasonable assurance that transactions are appropriately authorized, assets are adequately safeguarded, appropriations are not exceeded, and financial information is reliable and accurate.

The financial statements have been audited by the firm of Adams & Miles LLP, Chartered Accountants. Their report to the Board of Internal Economy, stating the scope of their examination and opinion on the financial statements, appears on the following page.

Jim McCarter, CA	Gary R. Peall, CA
Auditor General	Deputy Auditor General

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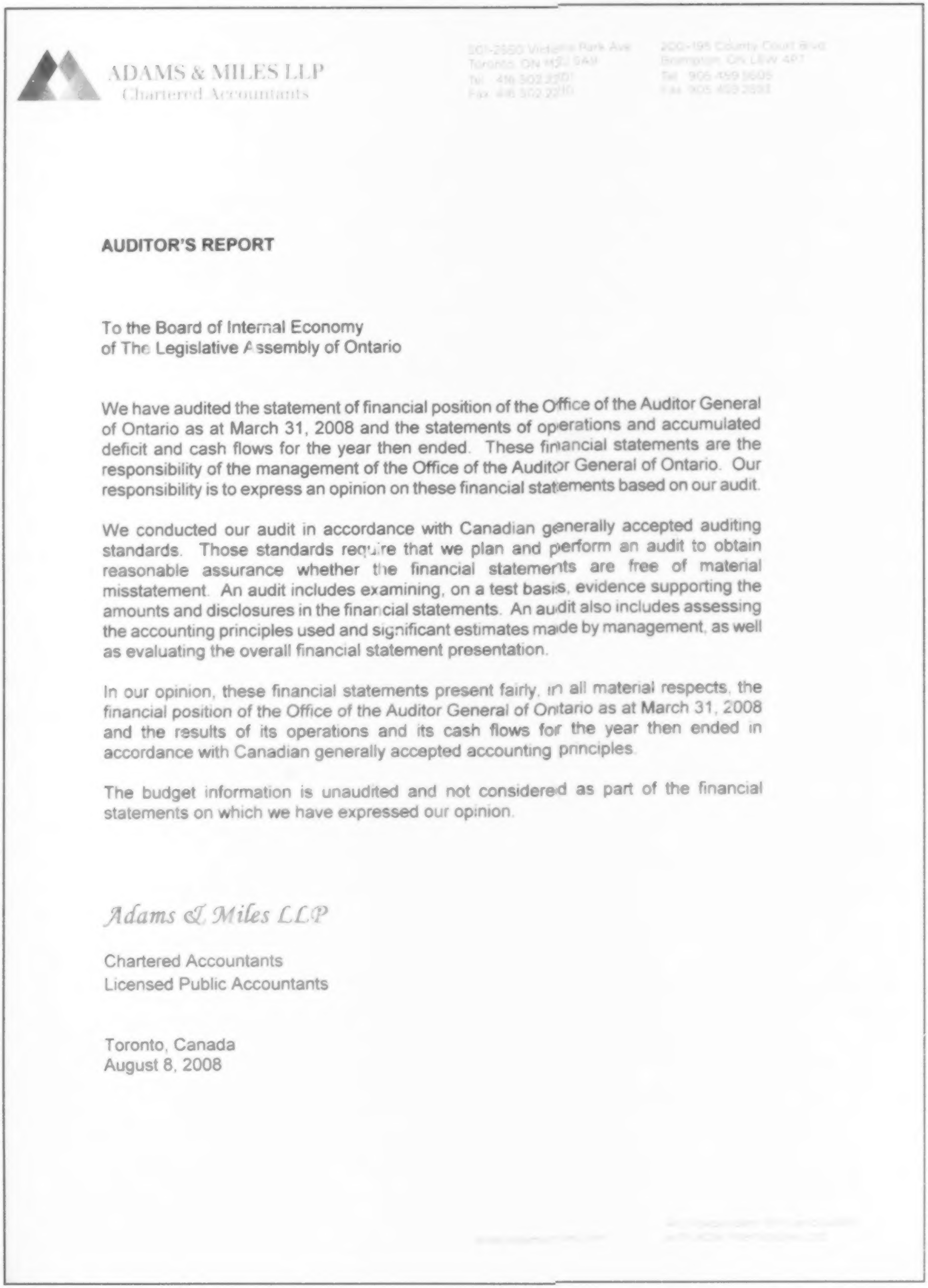

ADAMS & MILES LLP
Chartered Accountants

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Brampton, ON L6W 4P7
Tel 905 459 5605
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AUDITOR'S REPORT

To the Board of Internal Economy
of The Legislative Assembly of Ontario

We have audited the statement of financial position of the Office of the Auditor General of Ontario as at March 31, 2008 and the statements of operations and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the management of the Office of the Auditor General of Ontario. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of Ontario as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The budget information is unaudited and not considered as part of the financial statements on which we have expressed our opinion.

Adams & Miles LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
August 8, 2008

Office of the Auditor General of Ontario

Statement of Financial Position
As at March 31, 2008

	2008 $	2007 $
Assets		
Current		
Cash	521,868	337,829
Due from Consolidated Revenue Fund	374,144	365,969
	896,012	703,798
Capital Assets (Note 3)	598,271	564,876
Total assets	1,494,283	1,268,674
Liabilities		
Accounts payables and accrued liabilities	1,680,012	1,171,798
Accrued employee benefits obligation [Note 4(B)]	2,014,000	1,995,000
Net assets (Accumulated deficit)		
Investment in capital assets (Note 3)	598,271	564,876
Accumulated deficit [Note 2(B)]	(2,798,000)	(2,463,000)
	(2,199,729)	(1,898,124)
Total liabilities and accumulated deficit	1,494,283	1,268,674

Commitment (Note 5)

See accompanying notes to financial statements.

Approved by the Office of the Auditor General of Ontario:

Jim McCarter
Auditor General

Gary Peall
Deputy Auditor General

Office of the Auditor General of Ontario

Statement of Operations and Accumulated Deficit
For the Year Ended March 31, 2008

	2008 Budget $	2008 Actual $	2007 Actual $
Revenue			
Consolidated Revenue Fund - Voted appropriation	15,307,600	15,307,600	13,992,200
Expenses			
Salaries and wages	9,264,300	8,088,057	7,205,845
Employee benefits (Note 4)	2,097,900	1,910,786	1,554,185
Office rent	1,024,000	1,047,624	984,551
Professional and other services	1,497,400	1,525,747	1,263,785
Amortization of capital assets	–	276,514	250,829
Travel and communication	389,400	397,196	363,367
Training and development	253,000	201,882	132,385
Supplies and equipment	344,600	159,485	97,171
Transfer payment: CCAF-FCVI Inc.	50,000	50,000	50,000
Statutory expenses: *Auditor General Act*	297,000	322,449	362,564
Government Advertising Act	90,000	21,770	37,456
Total expenses (Note 7)	15,307,600	14,001,510	12,302,138
Excess of revenue over expenses		1,306,090	1,690,062
Less: returned to the Province		(1,607,695)	(1,729,934)
Net deficiency of revenue over expenses (Note 2B)		301,605	39,872
Accumulated deficit, beginning of year		1,898,124	1,858,252
Accumulated deficit, end of year		2,199,729	1,898,124

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Statement of Cash Flows
For the Year Ended March 31, 2008

	2008 $	2007 $
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Net deficiency of revenue over expenses	(301,605)	(39,872)
Amortization of capital assets	276,514	250,829
Accrued employee benefits obligation	19,000	185,000
	(6,091)	395,957
Changes in non-cash working capital		
Decrease (increase) in due from Consolidated Revenue Fund	(8,175)	160,483
Increase (decrease) in accounts payable and accrued liabilities	508,314	(133,846)
	500,039	26,637
Investing activities		
Purchase of capital assets	(309,909)	(259,957)
Net increase (decrease) in cash position	184,039	162,637
Cash position, beginning of year	337,829	175,192
Cash position, end of year	521,868	337,829

See accompanying notes to financial statements.

Office of the Auditor General of Ontario

Notes to Financial Statements
March 31, 2008

1. Nature of Operations

In accordance with the provisions of the *Auditor General Act* and various other statutes and authorities, the Auditor General conducts independent audits of government programs, of institutions in the broader public sector that receive government grants, and of the fairness of the financial statements of the Province and numerous agencies of the Crown. In doing so, the Office of the Auditor General promotes accountability and value-for-money in government operations and in broader public sector organizations.

Additionally, under the *Government Advertising Act, 2004*, the Auditor General is required to review specified types of advertising, printed matter or reviewable messages proposed by government offices to determine whether they meet the standards required by the Act.

Under both Acts, the Auditor General reports directly to the Legislative Assembly.

As required by the *Fiscal Transparency and Accountability Act, 2004*, the Auditor General was also required to review and report on the reasonableness of the 2007 Pre-Election Report prepared by the Ministry of Finance.

2. Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(A) ACCRUAL BASIS

These financial statements are accounted for on an accrual basis whereby expenses are recognized in the fiscal year that the events giving rise to the expense occur and resources are consumed.

(B) VOTED APPROPRIATIONS

The Office is funded through annual voted appropriations from the Province of Ontario. Unspent appropriations are returned to the Province's Consolidated Revenue Fund each year. As the approved appropriation was prepared on a modified cash basis, an excess or deficiency of revenue over expenses arises from the application of accrual accounting, including the capitalization and amortization of capital assets and the recognition of employee benefit costs earned to date but that will be funded from future appropriations.

(C) CAPITAL ASSETS

Capital assets are recorded at historical cost less accumulated amortization. Amortization of capital assets is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware	3 years
Computer software	3 years
Furniture and fixtures	5 years
Leasehold improvements	The remaining term of the lease

Office of the Auditor General of Ontario

Notes to Financial Statements
March 31, 2008

2. Significant Accounting Policies (Continued)

(D) FINANCIAL INSTRUMENTS

The Office adopted the Canadian Institute of Chartered Accountants (CICA) new accounting standards pertaining to financial instruments which establish guidance for the recognition and measurement of financial assets and liabilities and how financial instrument gains and losses should be accounted for. Under these new standards, all financial instruments are classified into one of the following five categories: held-for-trading, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities.

Under this standard, all financial instruments are required to be measured at fair value upon initial recognition except for certain related party transactions. After initial recognition, financial instruments should be measured at their fair values, except for financial assets classified as held to maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost.

Due to the nature of the Office's financial assets and liabilities, these new standards did not have an impact on their carrying values. Accordingly,

- Cash is classified as held for trading and is recorded at fair value.
- Due from Consolidated Revenue Fund is classified as loans and receivables and is valued at cost which approximates fair value given its short term nature.
- Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at cost which approximate fair value given their short term maturities.
- The accrued employee benefits obligation is classified as another financial liability and is recorded at cost based on the entitlements earned by employees up to March 31, 2008. A fair value estimate based on actuarial assumptions about when these benefits will actually be paid has not been made.

It is management's opinion that the Office is not exposed to any interest rate, currency, liquidity or credit risk arising from its financial instruments due to their nature.

(E) USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Office of the Auditor General of Ontario

Notes to Financial Statements
March 31, 2008

3. Capital Assets

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	$	$	$	$
Computer hardware	568,933	366,070	202,863	187,277
Computer software	195,331	121,494	73,837	89,088
Furniture and fixtures	268,705	111,591	157,114	187,316
Leasehold improvements	228,226	63,769	164,457	101,195
	1,261,195	662,924	598,271	564,876

Investment in capital assets represents the accumulated cost of capital assets less accumulated amortization and disposals.

4. Obligation for Future Employee Benefits

Although the Office's employees are not members of the Ontario Public Service, under provisions in the *Auditor General Act*, the Office's employees are entitled to the same benefits as Ontario Public Service employees. The future liability for benefits earned by the Office's employees is included in the estimated liability for all provincial employees that have earned these benefits and is recognized in the Province's consolidated financial statements. These benefits are accounted for as follows:

(A) PENSION BENEFITS

The Office provides pension benefits for its full-time employees through participation in the Public Service Pension Fund (PSPF), which is a multi-employer defined benefit plan established by the Province of Ontario. As the Office has insufficient information to apply defined benefit plan accounting, the pension expense represents the Office's contributions to the plan for current service of employees during this fiscal year and any additional employer contributions for service relating to prior years. The Office's contributions related to the pension plan for the year were $599,451 (2007 – $536,635) and are included in employee benefits in the Statement of Operations and Accumulated Deficit.

Office of the Auditor General of Ontario

Notes to Financial Statements
March 31, 2008

4. Obligation for Future Employee Benefits (Continued)

(B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

Although the costs of any legislated severance and unused vacation entitlements earned by employees are recognized by the Province when earned by eligible employees, these costs are also recognized in these financial statements. These costs for the year amounted to $346,000 (2007 – $290,000) and are included in employee benefits (and statutory expenses in 2007) in the Statement of Operations and Accumulated Deficit. The total liability for these costs is reflected in the accrued employee benefits obligation, less any amounts payable within one year, which are included in accounts payable and accrued liabilities, as follows:

	2008 $	2007 $
Total liability for severance and vacation	2,798,000	2,463,000
Less: Due within one year and included in accounts payable and accrued liabilities	(784,000)	(468,000)
Accrued employee benefits obligation	2,014,000	1,995,000

(C) OTHER NON-PENSION POST-EMPLOYMENT BENEFITS

The cost of other non-pension post-retirement benefits is determined and funded on an ongoing basis by the Ontario Ministry of Government Services and accordingly is not included in these financial statements.

5. Commitment

The Office has an operating lease to rent premises for an 11-year period, which commenced November 1, 2000. The minimum rental commitment for the remaining term of the lease is as follows:

	$
2008-09	525,369
2009-10	525,369
2010-11	525,369
2011-12	306,465

Office of the Auditor General of Ontario

Notes to Financial Statements
March 31, 2008

6. Public Sector Salary Disclosure Act, 1996

Section 3(5) of this Act requires disclosure of Ontario public-sector employees paid an annual salary in excess of $100,000 in calendar year 2007.

Name	Position	Salary $	Taxable Benefits $
McCarter, Jim	Auditor General	224,794.44	3,928.00
Peall, Gary	Deputy Auditor General	171,132.05	280.28
Amodeo, Paul	Director	125,281.74	219.76
Cheung, Andrew	Director	125,281.74	219.76
Chiu, Rudolph	Director	114,369.40	194.72
Fitzmaurice, Gerard	Director	128,251.74	219.76
Klein, Susan	Director	122,490.01	217.04
Mazzone, Vince	Director	114,051.64	195.96
McDowell, John	Director	125,281.74	219.76
Mishchenko, Nicholas	Director	125,281.74	219.76
Sciarra, John	Director of Operations	115,556.40	194.72
Bell, Laura	Audit Manager	102,229.27	176.16
Mok, Rita	Audit Manager	102,229.27	176.16
Wiebe, Annemarie	Manager, Human Resources	102,229.27	176.16

7. Reconciliation to Public Accounts Volume 1 Basis of Presentation

The Office's Statement of Expenses presented in Volume 1 of the Public Accounts of Ontario was prepared on a basis consistent with the accounting policies followed for the Province's financial statements, under which purchases of computers and software are expensed in the year of acquisition rather than being capitalized and amortized over their useful lives. Volume 1 also excludes the accrued employee future benefit costs recognized in these financial statements as well as in the Province's summary financial statements. A reconciliation of total expenses reported in volume 1 to the total expenses reported in these financial statements is as follows:

	2008 Actual $	2007 Actual $
Total expenses per Public Accounts Volume 1	13,699,905	12,262,266
Less: purchase of capital assets	(309,909)	(259,957)
Add: amortization of capital assets	276,514	250,829
change in accrued future employee benefit costs	335,000	49,000
Total expenses per audited financial statements	14,001,510	12,302,138

Exhibit 1

Agencies of the Crown

1. Agencies whose accounts are audited by the Auditor General

AgriCorp
Algonquin Forestry Authority
Cancer Care Ontario
Centennial Centre of Science and Technology
Chief Electoral Officer, *Election Finances Act* and *Electoral System Referendum Act*
Election Fees and Expenses, *Election Act*
Financial Services Commission of Ontario
Grain Financial Protection Board, Funds for Producers of Grain Corn, Soybeans, Wheat, and Canola
Investor Education Fund, Ontario Securities Commission
Legal Aid Ontario
Liquor Control Board of Ontario
Livestock Financial Protection Board, Fund for Livestock Producers
Northern Ontario Heritage Fund Corporation
North Pickering Development Corporation
Office of the Assembly
Office of the Children's Lawyer
Office of the Environmental Commissioner
Office of the Information and Privacy Commissioner
Office of the Ombudsman
Ontario Clean Water Agency (December 31)*
Ontario Development Corporation
Ontario Educational Communications Authority
Ontario Electricity Financial Corporation
Ontario Energy Board
Ontario Financing Authority
Ontario Food Terminal Board
Ontario Heritage Trust
Ontario Immigrant Investor Corporation
Ontario Media Development Corporation
Ontario Mortgage Corporation
Ontario Mortgage and Housing Corporation
Ontario Northland Transportation Commission
Ontario Place Corporation
Ontario Racing Commission
Ontario Realty Corporation
Ontario Securities Commission
Owen Sound Transportation Company Limited
Pension Benefits Guarantee Fund, Financial Services Commission of Ontario
Province of Ontario Council for the Arts
Provincial Advocate for Children and Youth
Provincial Judges Pension Fund, Provincial Judges Pension Board
Public Guardian and Trustee for the Province of Ontario
Toronto Area Transit Operating Authority
TVOntario Foundation

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* Dates in parentheses indicate fiscal periods ending on a date other than March 31.

2. Agencies whose accounts are audited by another auditor under the direction of the Auditor General

Motor Vehicle Accident Claims Fund
Niagara Parks Commission (October 31)*
Ontario Mental Health Foundation
St. Lawrence Parks Commission
Workplace Safety and Insurance Board (December 31)*

---

* Dates in parentheses indicate fiscal periods ending on a date other than March 31.

Note:

The following changes were made during the 2007/08 fiscal year:

Addition:

Chief Electoral Officer, *Electoral System Referendum Act*
Ontario Mortgage Corporation
Provincial Advocate for Children and Youth

Deletion:

Ontario Exports Inc.

Exhibit 2

Crown-controlled Corporations

Corporations whose accounts are audited by an auditor other than the Auditor General, with full access by the Auditor General to audit reports, working papers, and other related documents

Agricultural Research Institute of Ontario
Art Gallery of Ontario Crown Foundation
Baycrest Hospital Crown Foundation
Board of Funeral Services
Brock University Foundation
Canadian Opera Company Crown Foundation
Canadian Stage Company Crown Foundation
Central Community Care Access Centre
Central East Community Care Access Centre
Central East Local Health Integration Network
Central Local Health Integration Network
Central West Community Care Access Centre
Central West Local Health Integration Network
Champlain Community Care Access Centre
Champlain Local Health Integration Network
Deposit Insurance Corporation of Ontario
Echo: Improving Women's Health in Ontario
Education Quality and Accountability Office
Erie St. Clair Community Care Access Centre
Erie St. Clair Local Health Integration Network
Foundation at Queen's University at Kingston
Greater Toronto Transit Authority
Hamilton Niagara Haldimand Brant Community Care Access Centre
Hamilton Niagara Haldimand Brant Local Health Integration Network
HealthforceOntario Marketing and Recruitment Agency
Higher Education Quality Council of Ontario
Hydro One Inc.
Independent Electricity System Operator
McMaster University Foundation
McMichael Canadian Art Collection
Metropolitan Toronto Convention Centre Corporation
Mississauga Halton Community Care Access Centre
Mississauga Halton Local Health Integration Network
Mount Sinai Hospital Crown Foundation
Municipal Property Assessment Corporation
National Ballet of Canada Crown Foundation
North East Community Care Access Centre
North East Local Health Integration Network
North Simcoe Muskoka Community Care Access Centre
North Simcoe Muskoka Local Health Integration Network
North West Community Care Access Centre
North West Local Health Integration Network
North York General Hospital Crown Foundation
Northern Ontario Grow Bonds Corporation
Ontario Agency for Health Protection and Promotion
Ontario Foundation for the Arts
Ontario Health Quality Council
Ontario Infrastructure Projects Corporation
Ontario Lottery and Gaming Corporation
Ontario Pension Board
Ontario Power Authority
Ontario Power Generation Inc.

Ontario Tourism Marketing Partnership Corporation
Ontario Trillium Foundation
Ottawa Congress Centre
Royal Botanical Gardens Crown Foundation
Royal Ontario Museum
Royal Ontario Museum Crown Foundation
St. Clair Parks Commission
Science North
Shaw Festival Crown Foundation
Smart Systems for Health Agency
Stadium Corporation of Ontario Limited
South East Community Care Access Centre
South East Local Health Integration Network
South West Community Care Access Centre
South West Local Health Integration Network
Stratford Festival Crown Foundation
Sunnybrook Hospital Crown Foundation
Toronto Central Community Care Access Centre
Toronto Central Local Health Integration Network
Toronto East General Hospital Crown Foundation
Toronto Hospital Crown Foundation
Toronto Islands Residential Community Trust Corporation
Toronto Symphony Orchestra Crown Foundation
Toronto Waterfront Revitalization Corporation
Trent University Foundation
Trillium Gift of Life Network
University of Ottawa Foundation
Walkerton Clean Water Centre
Waterfront Regeneration Trust Agency
Waterloo Wellington Community Care Access Centre
Waterloo Wellington Local Health Integration Network
Women's College and Wellesley Central Crown Foundation

Note:
The following changes were made during the 2007/08 fiscal year:

Addition:
Echo: Improving Women's Health in Ontario
HealthforceOntario Marketing and Recruitment Agency
Ontario Agency for Health Protection and Promotion

Deletion:
Ontario Family Health Network

Exhibit 3

Treasury Board Orders

Under subsection 12(2)(e) of the *Auditor General Act*, the Auditor General is required to annually report all orders of the Treasury Board made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized, and the amount expended. These are outlined in the following table. While ministries may track expenditures related to these orders in more detail by creating accounts at the sub-vote and item level, this schedule summarizes such expenditures at the vote and item level.

Ministry	Date of Order	Authorized ($)	Expended ($)
Agriculture, Food and Rural Affairs	May 17, 2007	4,296,500	–
	May 17, 2007	1,500,000	1,500,000
	Jun. 7, 2007	53,225,000	–
	Jun. 21, 2007	500,000	–
	Aug. 16, 2007	1,000,000	–
	Aug. 16, 2007	8,772,600	2,270,342
	Jan. 10, 2008	2,200,000	–
	Jan. 16, 2008	1,600,000	–
	Mar. 6, 2008	2,950,000	179,548
	Mar. 25, 2008	12,500,000	7,451,403
	Mar. 26, 2008	1,000,000	–
	Mar. 27, 2008	5,000,000	–
		94,544,100	**11,401,293**
Attorney General	Apr. 26, 2007	1,790,000	–
	Jun. 21, 2007	1,200,000	1,200,000
	Jun. 21, 2007	3,843,100	2,810,600
	Jun. 21, 2007	11,874,600	10,850,200
	Jul. 19, 2007	3,702,000	2,910,530
	Aug. 16, 2007	122,600	–
	Jan. 24, 2008	101,296,800	101,278,524
	Mar. 6, 2008	56,829,100	46,345,670
	Mar. 6, 2008	1,682,000	–
	Mar. 25, 2008	25,000,000	24,818,155
	Apr. 10, 2008	7,200,000	6,177,470
		214,540,200	**196,391,149**

Ministry	Date of Order	Authorized ($)	Expended ($)
Children and Youth Services	Jun. 21, 2007	97,500,000	83,740,830
	Jun. 21, 2007	530,000	530,000
	Jul. 19, 2007	500,000	500,000
	Feb. 11, 2008	10,015,200	9,888,709
	Feb. 14, 2008	17,800,000	17,800,000
	Mar. 6, 2008	399,800	–
	Mar. 6, 2008	3,000,000	3,000,000
	Mar. 6, 2008	10,300,000	10,300,000
	Mar. 6, 2008	5,978,300	5,480,101
	Mar. 25, 2008	15,000,000	15,000,000
	Mar. 27, 2008	400,000	–
	Apr. 10, 2008	28,050,000	25,376,502
		189,473,300	**171,616,142**
Citizenship and Immigration	Feb. 14, 2008	100,000	100,000
	Mar. 25, 2008	1,500,000	–
	Mar. 27, 2008	3,254,400	2,682,617
		4,854,400	**2,782,617**
Community and Social Services	Jun. 21, 2007	846,000	–
	Jun. 21, 2007	6,752,900	6,752,900
	Jul. 19, 2007	4,400,000	–
	Jan. 24, 2008	33,070,000	33,070,000
	Jan. 24, 2008	6,700,000	4,785,840
	Feb. 14, 2008	15,700,000	15,700,000
	Mar. 6, 2008	29,100,000	21,581,675
	Mar. 25, 2008	15,000,000	13,949,999
	Mar. 27, 2008	1,200,000	300,000
	Mar. 27, 2008	122,250,000	96,271,799
		235,018,900	**192,412,213**
Community Safety and Correctional Services	Jun. 7, 2007	1,000,000	–
	Jun. 21, 2007	1,050,700	1,050,700
	Jun. 21, 2007	384,200	384,200
	Aug. 16, 2007	135,600	135,600
	Aug. 16, 2007	2,640,700	2,640,700
	Jan. 24, 2008	161,400	161,400
	Jan. 24, 2008	2,128,000	2,128,000
	Feb. 14, 2008	5,054,300	3,848,443
	Feb. 14, 2008[a]	–	–
	Feb. 22, 2008	10,086,800	10,086,800
	Mar. 6, 2008	13,103,800	9,601,800
	Mar. 25, 2008	5,000,000	4,817,744

[a] A Treasury Board order for $152,500,000 was issued on February 14, 2008, but was subsequently rescinded on March 27, 2008.

Ministry	Date of Order	Authorized ($)	Expended ($)
Community Safety and Correctional Services (continued)	Mar. 27, 2008	61,634,000	47,859,721
	Apr. 10, 2008	13,000,000	9,591,543
		115,379,500	**92,306,651**
Culture	Nov. 28, 2007	200,000	200,000
	Mar. 25, 2008	75,511,000	65,187,197
		75,711,000	**65,387,197**
Economic Development and Trade	Dec. 13, 2007	5,000,000	5,000,000
	Jan. 24, 2008	2,850,000	2,000,000
	Mar. 18, 2008	150,000	–
	Apr. 10, 2008	29,985,000	25,770,250
		37,985,000	**32,770,250**
Education	May 17, 2007	3,046,800	–
	Jun. 21, 2007	1,750,000	–
	Jul. 16, 2007	3,000,000	–
	Aug. 30, 2007	11,299,500	–
	Mar. 11, 2008	7,000,000	4,588,569
		26,096,300	**4,588,569**
Energy	Jun. 18, 2007	19,350,000	9,986,556
	Jun. 21, 2007	2,470,000	–
		21,820,000	**9,986,556**
Environment	Jun. 21, 2007	2,390,600	2,117,256
	Aug. 30, 2007	1,062,700	–
	Mar. 6, 2008	19,250,000	19,250,000
	Mar. 27, 2008	4,000,000	3,809,859
	Mar. 31, 2008	10,490,400	10,344,906
	Apr. 4, 2008	2,809,400	2,340,848
		40,003,100	**37,862,869**
Finance	Jun. 21, 2007	300,000	–
	Aug. 13, 2007	1,000,000	460,861
	Aug. 16, 2007	179,200	–
	Mar. 6, 2008	342,475,000	–
	Mar. 25, 2008	22,000,000	2,392,098
	Mar. 27, 2008	65,155,000	–
		431,109,200	**2,852,959**
Government Services	Apr. 26, 2007	67,800,000	67,800,000
	Jun. 21, 2007	300,000	300,000

Exhibit 3

Ministry	Date of Order	Authorized ($)	Expended ($)
Government Services (continued)	Jan. 24, 2008[b]	9,087,000	8,737,000
	Mar. 6, 2008[b]	1,100,000	1,100,000
	Mar. 6, 2008[b]	43,647,300	34,237,574
	Mar. 28, 2008[b]	1,156,500	1,028,945
	Aug. 19, 2008	4,783,900	4,782,903
		127,874,700	**117,986,422**
Health and Long–Term Care	Jul. 19, 2007	800,000	–
	Jul. 25, 2007	39,200,000	–
	Jan. 31, 2008	1,926,500	1,926,273
	Feb. 20, 2008	15,040,100	12,838,891
	Mar. 6, 2008	547,244,500	546,252,942
	Mar. 13, 2008	8,421,000	8,056,421
	Mar. 27, 2008	129,359,800	118,772,741
	Aug. 19, 2008	44,000,000	37,902,665
		785,991,900	**725,749,933**
Health Promotion	Mar. 6, 2008	200,000	–
	Mar. 18, 2008	192,700	–
		392,700	**–**
Intergovernmental Affairs	Aug. 10, 2007	200,000	200,000
	Sep. 7, 2007	200,000	200,000
	Sep. 13, 2007	150,000	150,000
	Oct. 5, 2007	50,000	50,000
	Nov. 22, 2007	200,000	200,000
	Mar. 25, 2008	5,000,000	4,643,225
		5,800,000	**5,443,225**
Labour	Jan. 2, 2008	70,000	12,237
	Feb. 19, 2008	115,000	–
		185,000	**12,237**
Municipal Affairs and Housing	Jun. 7, 2007	6,000,000	–
	Aug. 22, 2007	1,200,000	1,198,000
	Mar. 6, 2008	7,000,000	6,743,653
	Mar. 28, 2008	835,200	387,611
		15,035,200	**8,329,264**
Natural Resources	May 17, 2007	2,319,400	2,319,400
	Jun. 21, 2007	1,885,000	1,885,000
	Jun. 21, 2007	51,400,000	29,809,638
	Jan. 24, 2008	13,313,500	13,313,500

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b. The name of the Ministry when these Treasury Board orders were issued was Government and Consumer Services.

Ministry	Date of Order	Authorized ($)	Expended ($)
Natural Resources (continued)	Mar. 6, 2008	13,900,000	4,670,431
	Mar. 6, 2008	3,502,500	1,011,810
		86,320,400	**53,009,779**
Northern Development and Mines	Jun. 21, 2007	400,000	400,000
	Jan. 24, 2008	7,000,000	7,000,000
	Mar. 3, 2008	50,000	–
	Mar. 25, 2008	9,700,000	9,700,000
	Mar. 27, 2008	10,400,000	9,347,263
	Mar. 27, 2008	12,000,000	11,862,205
		39,550,000	**38,309,468**
Office of Francophone Affairs	Jun. 4, 2007	541,000	541,000
	Jul. 19, 2007	51,000	51,000
	Mar. 6, 2008	115,200	101,365
		707,200	**693,365**
Office of the Lieutenant Governor	Feb. 14, 2008	**180,000**	**177,334**
Ontario Secretariat for Aboriginal Affairs	Jun. 21, 2007	3,200,000	3,200,000
	Aug. 16, 2007	6,631,500	1,099,414
		9,831,500	**4,299,414**
Public Infrastructure Renewal	Aug. 16, 2007	10,678,000	–
	Aug. 16, 2007	50,000,000	50,000,000
	Feb. 14, 2008	33,249,400	33,249,400
	Mar. 6, 2008	58,610,500	–
	Mar. 6, 2008[c]	–	–
	Mar. 31, 2008	5,142,900	107,124
	Apr. 10, 2008	20,000,000	–
		177,680,800	**83,356,524**
Research and Innovation	Jul. 25, 2007	3,500,000	3,500,000
	Jan. 2, 2008	5,000,000	2,800,000
	Jan. 24, 2008	34,960,000	24,330,000
	Feb. 14, 2008	10,000,000	–
	Mar. 25, 2008	36,500,000	26,499,683
		89,960,000	**57,129,683**
Revenue	Jun. 21, 2007	8,573,900	–
	Aug. 16, 2007	3,036,700	–
	Aug. 16, 2007	7,889,500	–
		19,500,100	**–**

c. A Treasury Board order for $761,300 was issued on March 6, 2008, but was subsequently rescinded on April 10, 2008.

Exhibit 3

Ministry	Date of Order	Authorized ($)	Expended ($)
Small Business and Entrepreneurship	Mar. 25, 2008	**6,000,000**	**5,053,955**
Tourism	Jun. 21, 2007	1,709,400	1,709,400
	Jul. 25, 2007	1,900,000	1,900,000
	Nov. 15, 2007	10,906,700	4,383,498
	Dec. 13, 2007	10,000,000	10,000,000
	Jan. 16, 2008	20,000,000	20,000,000
	Feb. 12, 2008	3,000,000	3,000,000
	Feb. 12, 2008	10,900,000	10,900,000
	Mar. 6, 2008	3,451,000	3,451,000
	Mar. 18, 2008	900,000	900,000
	Mar. 27, 2008	1,371,800	1,224,683
		64,138,900	**57,468,581**
Training, Colleges and Universities	May 17, 2007	2,453,200	2,453,200
	Jun. 21, 2007	7,300,000	7,300,000
	Aug. 30, 2007	750,000	750,000
	Nov. 27, 2007	7,387,500	7,387,500
	Jan. 16, 2008	373,000,000	373,000,000
	Feb. 11, 2008	91,350,000	91,350,000
	Mar. 6, 2008	13,294,900	8,748,962
	Mar. 25, 2008	34,468,000	31,585,341
	Mar. 27, 2008	5,770,500	1,999,999
	Aug. 19, 2008	4,976,200	4,976,163
		540,750,300	**529,551,165**
Transportation	Jun. 7, 2007	3,000,000	3,000,000
	Jun. 21, 2007	1,854,800	1,073,145
	Jun. 21, 2007	998,300	–
	Jun. 21, 2007	46,026,100	30,579,000
	Jul. 19, 2007	878,900	–
	Jul. 25, 2007	890,000	890,000
	Dec. 13, 2007	7,000,000	7,000,000
	Jan. 2, 2008	300,000,000	291,632,221
	Jan. 16, 2008	200,000,000	169,490,994
	Jan. 24, 2008	5,773,000	1,585,038
	Mar. 6, 2008	15,826,300	–
Transportation (continued)	Mar. 18, 2008	2,616,900	–
	Apr. 3, 2008	7,700,000	6,899,894
		592,564,300	**512,150,292**
Total Treasury Board Orders		**4,048,998,000**	**3,019,079,106**

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